RESTRUCTURING FOOD AID: TIME FOR A CHANGE?

HEARING

BEFORE THE

INTERNATIONAL TASK FORCE

OF THE

SELECT COMMITTEE ON HUNGER
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, JUNE 22, 1989

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RESTRUCTURING FOOD AID: TIME FOR A CHANGE?

THURSDAY, JUNE 22, 1989

International Task Force,
Select Committee on Hunger,
Washington, DC.

The task force met, pursuant to notice, at 10:10 a.m., in room 2226, Rayburn House Office Building, Hon. Tony P. Hall (chairman of the task force) presiding.

Members present: Representatives Dorgan, Penny, Flake, McNulty, Faleomavaega, Gilman, Bereuter, and Upton.

OPENING STATEMENT OF HON. BYRON L. DORGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. Dorgan. Good morning. My name is Byron Dorgan and I would like to welcome all of you to this morning's hearings. Other members of the committee will be with us shortly.

There is currently a caucus underway on the floor of the House and there will be some votes in the Democratic caucus on the election of some Democratic officers and so we may have some brief interruptions this morning, but I would expect them to be brief and infrequent.

We do, nonetheless, want to begin the hearings and I wanted you to know why some of the members are not here because there is other business underway on the floor of the House and the caucus.

Tony Hall will be chairing this hearing in his role as chair of the committee's International Task Force. In his absence, I will read his opening statement:

Opening Statement of Hon. Tony P. Hall, a Representative in Congress From the State of Ohio

Good morning. I would like to welcome all of you to this morning's hearing on some changes which might be needed in our food aid programs.

As you know, the House and Senate Agriculture Committees will soon be embarking on an enormously important task—rewriting the farm bill. This activity will be completed some time next year.

The House is presently considering a bill which rewrites the foreign aid legislation. That bill contains about $2.6 billion for bilateral development assistance activities.

The administration requested about $1.5 billion for food aid for fiscal year 1990, for a level roughly 60 percent as large as development assistance. Food aid is an enormously important development in humanitarian program, and it deserves careful attention.

The Select Committee on Hunger has as one of its functions "to recommend to the appropriate committees of the House, legislation or other action the select committee considers necessary with respect to programs or policies affecting hunger or malnutrition." There is no more important function of this committee than making certain that our development programs are helping the millions of hungry, malnourished people left in the world. It is our hope that the U.S. food aid programs will be improved as a result of the work of the Committees on Agriculture, and that we can be of help in that process.

We have witnesses today from A.I.D, the Department of Agriculture, the Department of State, CARE, U.S. Wheat Associates, and a food aid expert from Swarthmore College. You are welcome here and we look forward to benefiting from your knowledge.

You are all very welcome.

Mr. DORGAN. The first witness this morning will be Philip Christenson, the Assistant Administrator of Bureau for Food for Peace and Voluntary Assistance Agency for International Development.

Mr. Christenson, you may proceed and I would like to mention that we would like you to summarize your testimony and an entire copy of your testimony will be submitted for the record.

However, before you proceed, let me first ask if Mr. Bereuter has an opening statement.

OPENING STATEMENT OF HON. DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. BEREUTER. Thank you, Mr. Chairman. I do have comments. I regret the fact that I am not going to be able to stay for the hearings. It is not because of a lack of interest in this subject. I have a compelling interest in this subject.

We have on the floor as the first amendment today on the foreign aid bill my effort to eliminate the Torricelli language which extends cargo preference to all ESF recipient countries with a couple of notable exceptions, Israel being one.

If there is ever a program that takes food from the mouths of starving children and gives it to a few entities in this country, it is the cargo preference provision. Now it would be extended further and reduce further our foreign assistance programs.

So, I hope you understand that this is a compelling need for me to be on the floor. It also truly amazes me, I would like to say on the record, how organizations like the Farmer's Union can be supporting an effort like that simply in the interest of organized labor—farm organization ties.

I would hope that some of the witnesses will be able to focus a little bit, if not now, at least upon later reflection, upon H. Con. Res. 91 which this member has introduced with respect to Japanese burden sharing and world hunger.

I might say, Mr. Chairman, that I know that the motives of Chairman Leland are very positive, and I am not unwilling to have a thorough examination of the international efforts. Worldwide, we deliver assistance systems through food, but I am concerned that this discussion of restructuring not be preliminary to a gutting of the Food for Peace Program.

When I see the kinds of articles occasionally on the editorial page which suggest, I think with faulty data, that our Food for Peace Program has been detrimental, as opposed to positive, I am concerned about the potential direction of the hearing. Therefore, I try to monitor it as closely as I can.

Thank you, Mr. Chairman, for giving me a chance to make an opening statement.

Mr. DORGAN. Mr. Bereuter, thank you very much. The chair would call on Mr. Philip Christenson for a statement.

Mr. Christenson.

STATEMENT OF PHILIP L. CHRISTENSON, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. CHRISTENSON. Thank you very much, Mr. Chairman. I happen to have spent 8 years in the Senate staff and I have seen hearings from the perspective of sitting behind members. This is my first chance to see the congressional hearing from physical and a professional different point of view.

I will submit my formal statement for the record and try to give you a very brief summary. We have recently launched a reconsideration of the food aid program which is brought about in part because A.I.D itself had looked at its authorizing legislation in its nonfood aid areas and naturally, having completed that exercise, it was time to consider food aid.

Looking at this situation, one of the things that we noticed that since 1954, the situation has changed dramatically. The world is quite different than it was at the time the Food Aid Program was originally created 35 years ago and I think in just general terms, 35 years passage, it is time to look at any program.

There has been a considerable change in the targets of American aid and I recall when I first joined the Foreign Service in 1970, we had large aid programs in Korea, Malaysia, Singapore, and a whole group of countries which are now graduated and we are now focusing much more strongly on some of the poorest of the poor countries and that needs to be factored in.

There has also been a shift in the nature of U.S. Agriculture Promotional Programs. At one time, Public Law 480 was a major, a very large portion of our trade promotion in the field of agricultural. Now it is only 3 or 5 percent of total U.S. exports.

There has been an expansion of food aid programs from Public Law 480 into other areas. The late Senator Zorinsky of Nebraska successfully sponsored an amendment in 1981 that sets a target of 15 percent of commodity import programs to be used for agriculture-related products.

In some countries, the CIP is a larger food aid program than the Public Law 480 program. Looking at having two different programs in food aid, it sort of behooves us to take the time to look at how each of them operate and see if there are not lessons that could be learned.

In addition, A.I.D. itself has a problem which is that we dropped in personnel levels from 16,000 employees in 1969 to 4,766 today. I am talking about direct higher employees and we just simply have to find some more manpower conserving and cost effective ways to do our business.

We just do not have the staff to do things the way we have done them in the past. Since I am appearing before the Select Committee on Hunger, I am going to start in reverse orders and talk about title II instead of title I and as the beginning, just to say that we have the most salient feature of the food aid program in this decade has been the outstanding work done by the United States and the PVO's in saving lives under the most difficult circumstances in some of the most remote regions of Africa.

Of the American response to the famine situation in Ethiopia, Sudan, and elsewhere has been something from which we can all be proud.

Despite those efforts, I think you will agree with me that the fact that perhaps 1 million people have died in the past decade from starvation in Africa is reason enough to decide that we should take a good strong look at our title II program, especially in the famine relief area to see if we can't do better.

I mean, people have tried extremely hard. People have done heroic things. We have people right now who are being shot at in Southern Sudan and yet people are dying and we cannot be satisfied with their program. One person dying of starvation is one too many in my book, so we have to kind of look at that.

The emergency problems that we face in Africa are more difficult than anything we faced in the 1950's and 1960's. It is a lot easier to deal with a crop failure in a country like India which has an otherwise functioning government, and an otherwise functioning economy, than it is to deal with the situation of people starving in Southern Sudan which is an area which has no roads, a civil war going on, and really a government whose width does not run into the daily lives of people in large parts of the country.

These emergency situations are going to require us to reconsider some things. We have traditionally looked upon food aid in terms of dollar costs per pound delivered to a port. When we are flying food at $1,000 a ton or trucking it some very short distances through Southern Sudan, we are trucking it 200 miles for $800 a ton, we may need to relook at our criteria.

One of the issues that I want to look at is whether we cannot get some higher calorie per kilo into the foods that we use for famine situations. I have done some calculations and you can get 30 percent more calories per ton and if you need a certain number of calories to keep somebody alive, to increase the caloric density may be a better approach than the ones we have used in the past.

We also need to work with our PVO partners to see if there is a way that we can change a policy or procedures to take into account the very different challenges they're facing. The costs are high, much higher than anything they have experienced before and we need to be responsive to that.

We need to sit and work with the PVO's to see whether we are not unintentionally encouraging the amount of the food aid or the humanitarian food distribution activity and see if we can work with them in doing something to encourage them to maintain a proper level of activity in this field.

In terms of management, one of the issues that we are looking at is whether we shouldn't have a minimum project size. As I mentioned, the reduction in staffing throughout the Agency places a premium on economies of scale and it may be a lot cheaper and a lot more effective to monetize food in some areas and give cash grants to PVO's to conduct humanitarian feeding operations in the other places in the same economy.

From the trade promotion point of view and I noticed that we have a Congressman from North Dakota and one from Nebraska, so it is an important issue that I know to your home States—we are looking at how we can better promote U.S. agricultural exports with the Public Law 480 program.

One of the things we think needs to be looked at would be to convert the present title I long-term concessional interest rate loan program to a grant program. It is a question that we have and we have no policy on this so we are looking at the issue, but over the years, Public Law 480 has become the largest remaining long-term concessional loan program.

We have converted development assistance in the SF and military assistance over the years from loan programs to cash grant programs and we are wondering whether this should not be brought into line with the other development programs.

The long-term interest rate loan program creates some real problems in terms of the debt burden of the countries. We ask the question whether lending 30 years long-term interest rate loan to purchase the import of a consumable is really in the best interest of the countries whose economic development we are trying to help.

We are also raising the question whether there are certain administrative problems when you lend money and we think it is still in some respects our money, the proceeds of sale of title I commodities. The post government looks upon it as they borrowed the money; they are going to pay it back, so the proceeds of sale are their money. We have an inevitable conflict there that needs to be resolved.

The CIP tends to be able to do a broader range of products, some higher value products than the current Public Law 480 program and we think that we ought to look and see whether conversion to a grant type or a local currency sale of title I program would not be better for the market development aspects of the program as well as simplifying it.

Another aspect is multiyear commitments, since they have mentioned that we have a personnel constraint. It may make a lot more sense to do a 2- or 3-year program with a country, have that paperwork cover a 2-year period rather than to have an annual review process.

If I may, Mr. Chairman, I would like to make a very strong emphasis on the point that we are only at the initial stages of this review and we are committing ourselves to being open to new ideas.

I believe Congress can be and often is the creative and innovative development in our Federal Government and I would like to assure you and your committee of our firm commitment to work together on both a formal and informal basis with the various committees and Members of Congress on these issues as we move toward the 1990 farm bill.

Thank you.

[The prepared statement of Mr. Christenson appears at the conclusion of the hearing, see p. 46.]

Mr. HALL. Thank you, Mr. Christenson. Sorry that I was late. We are having elections in our caucus right now.

Mr. CHRISTENSON. I appreciate your coming.

Mr. HALL. I think my statement has been read and, as I understand, Mr. Christenson, you were the first one to lead off. So, Mr. Goldthwait would be No. 2.

STATEMENT OF CHRISTOPHER GOLDTHWAIT, ACTING GENERAL SALES MANAGER AND ASSISTANT ADMINISTRATOR FOR EXPORT CREDITS, U.S. DEPARTMENT OF AGRICULTURE

Mr. GOLDTHWAIT. Thank you, Mr. Chairman. Mr. Chairman, we very much appreciate the opportunity to come and discuss with you this morning our views on restructuring food aid. In the Department of Agriculture, we very much agree that consideration of ways to improve our food aid is a timely topic.

To help set the stage for this discussion, I would like to make reference to the various U.S. Government food aid programs. First and foremost, the Public Law 480, the Food for Peace Program, and I would like to begin by referring to the several different goals of that program.

These are to expand trade, to develop and expand export markets via U.S. agricultural commodities, to combat hunger and malnutrition, to encourage economic development, to foster and encourage the development of private enterprise, to enhance food security and to promote in other ways the foreign policy of the United States.

This list of goals has, indeed, grown over the years, especially through more recent legislation. It is readily apparent from the listing of these legal and mandated goals that Public Law 480 has become complicated and responds to or affects many, many different interests in this country, ranging from feeding the hungry to supporting the U.S. maritime fleet.

The complexity of the legislation, which has had amendments layered on top of amendments, leads most of us in the food aid community to support considerations of ways to streamline and simplify the act. This is a task that the executive branch has also been very much interested in.

In addition to Public Law 480, agricultural commodities are also furnished under section 416(b) of the Agriculture Act of 1949 for carrying out foreign assistance programs very similar to title II of Public Law 480. This program, unlike Public Law 480 itself, is supported only by Commodity Credit Corporation, CCC, owned commodities, and only by CCC stocks that are excess to other legally required uses, such as domestic feeding programs.

I would like to comment briefly on our Department's view of title I, but first I would like to reiterate our long-standing support for the humanitarian goal of Public Law 480, carried out through title's I, II, and III of the program.

The Department of Agriculture views title I primarily as a market development tool. We believe that the objectives of food assistance and market development are largely compatible. In an ideal world, market development itself is a very long-term endeavor.

It starts with long-term credit financing for countries such as title I. It then moves to our commercial credit guarantee programs and finally, to full commercial transactions. In its early years, use of Public Law 480 to support market development was, as Mr. Christenson said, a goal of major importance.

Over the years, many other goals have also become important. At present there is a wide array of programs and goals, including many from the Foods Security Act of 1985. However, we continue to see the need to use Public Law 480 to effectively support agricultural market development.

I would also like to touch, in this regard, on one of the major responsibilities of the Department in the Public Law 480 program administration. The Secretary of Agriculture has the responsibility to determine which U.S. agricultural commodities will be available under Public Law 480 each fiscal year.

As members of the committee are aware, this year we will carefully review the commodity situation, especially that for wheat. Last year, we obtained presidential authorization to use up to 1.5 million tons of wheat from the Food Security Wheat Reserve for programming through Public Law 480 during the present fiscal year.

I would expect that this year we will again be requesting a Presidential determination to use wheat from this reserve in order to meet fiscal year 1990 programming needs. While it is rather early in the crop year, we do not expect, at this time, any unusual situations for any of the other commodities used in the program.

Let me refer, if I may, to your questions on the appropriateness of using food aid for balance of payments support. We do not generally view title I programs as designed specifically for this purpose, although we recognize that they do have this effect.

We do not necessarily see that the resulting balance of payment support that may flow from title I is inappropriate, but we do not see it either as a primary goal of the program. As I noted, we continue our support for the humanitarian goals of the program, while at the same time, supporting productive market development activities through the program.

Let me conclude by noting that the several agencies that are involved in U.S. food aid programs are actively involved as well in a discussion of possible changes in Public Law 480 in the next farm bill.

We are at the beginning of the process and I am confident that we will be seeking ways to streamline the program and lessen its complexity. For example, several of the provisions such as the multiple mandates in title II, compliance provisions of title III, and the unused authorities such as sections 107 and 114 are areas for possible review.

It is, indeed, difficult for any program to be all things to all people and I think that most of us in the executive branch feel that Public Law 480 itself may be, to some degree, "over mandated" and "over earmarked". Many of the provisions have been unused for several years and some of them are no longer entirely relevant.

Conflicting directions appear to exist in different parts of the act and these are often hard to reconcile. The time to consider these as well as many other aspects of food aid does, indeed, seem to be now and we in the executive branch are very much looking forward to the undertaking and working with Congress under it.

Thank you.

[The prepared statement of Mr. Goldthwait appears at the conclusion of the hearing, see p. 60.]

Mr. Hall. Mr. Arcos.

STATEMENT OF CRESENCIO ARCOS, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF INTER-AMERICAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Arcos. Thank you, Mr. Chairman. Mr. Chairman, I am pleased to have the opportunity today to discuss our food assistance program of Central America. Central America is the area of policy that I oversee in the Department of State in the Bureau of Inter-American Affairs.

I would like to say that the food policy for use of commodities available under Public Law 480 is set through a five-member interagency process operating by consensus and chaired by the Department of Agriculture.

Accompanying me here today is an officer of the Department of State's Bureau of Economics and Business Affairs which represents the Department in that process. Mr. Christenson, who preceded me, is the Assistant Administrator for Food and Voluntary Assistance and he can speak to many of your questions about the management of food aid in the region.

Central America has been for the last decade beset by political, social, and economic upheaval. These travails have had a major impact on the region's economies and despite important peace initiatives, political extremism, terrorism, and armed conflicts persist.

Although U.S. military aid to the Nicaraguan Resistance ended more than 16 months ago, the Soviet Bloc and Cuba have continued a high level of military assistance that facilitates Sandinista repression at home and subversion of the region.

With our continuing support, democratic institutions have begun to take root in Central America, but these fragile institutions are being strained by economic crisis. Transition from authoritarian to democratic rule has generated heightened expectations for improved economic and political conditions.

The challenges from insurgents in Guatemala and El Salvador, and the consolidation of a Marxist regime in Nicaragua pose threats to the evolution of democratic institutions in Guatemala, El Salvador and Honduras and to long-standing democratic traditions in Costa Rica.

Support for human rights in the development and preservation of freedom and fundamental liberties in Central America has been the consistent goal of the U.S. Government.

Since the Bush administration took office in January, we have embarked on a new effort to ensure, through diplomacy, that these democratic goals become reality, not just in those countries that have enjoyed a return to constitutional democracy, but also in Nicaragua.

We have no hidden agenda; we want democracy for all the countries on the Central American isthmus. The basic considerations underlying our assistance policy toward the region were formulated in 1983 and 1984 by the National Bipartisan Commission on Central America known as the Kissinger Commission.

The Congress adopted the report of the Commission in the form of Central American initiative supporting President Reagan's program for increased assistance to the region in all forms, including food aid. The Commission's focus on democratization, human rights, economic stabilization, structural transformation, and expansion of the benefits of economic growth remain at the center of our policy.

In pursuit of our objectives, food assistance has been an important policy tool. An adequate supply of foodstuffs is an essential humanitarian need that crosses all socioeconomic boundaries and is a basic determinant of economic and political stability.

In accordance with Public Law 480 legislation, our food assistance program supports both strategic and humanitarian interests in providing sustenance, while supporting economic stabilization in order to achieve economic and political reforms that will enable the countries in the region to become capable of providing for the basic needs of their people.

With food aid, we are working to remove the twin spectres of hunger and conflict, both of which dim the chances for lasting peace and democracy in Central America. This is all I have to say, Mr. Chairman.

[The prepared statement of Mr. Arcos appears at the conclusion of the hearing, see p. 65.]

Mr. HALL. Thank you. Mr. Upton, do you have a statement?

Mr. UPTON. No, I don't.

Mr. HALL. Well, thank you very much for coming, all three of you. Mr. Christenson, this is your first time before the committee, the first time that you come before Congress. It is good to have you. I want to thank you personally for responding to some requests that I have made concerning a country that really needed some food. I appreciated that response.

As many of you know, many of us in Congress travel a lot to Third World countries, and we have been a part of many delegations, on our own or with other groups looking at how our food aid is used in Africa, Asia, and Latin America.

The one question that I continue to receive from my constituents and every time I speak about the subject of hunger, food, health, or development assistance is: Are we—the questions always seems to be the same—are we still giving money, food, et cetera, to the various governments of these poor nations? It doesn't seem that we get very good value for our food, for our money.

I am constantly telling them that a good, reliable channel for our food aid and other development assistance is the private voluntary organizations—PVO's.

We get very good accountability for our money and our food, I think, from these nongovernmental organizations, and I see what they have done with my own eyes; the tremendous commitment that they have.

I hope we continue to go this way. It seems to be very practical, very cost effective, and a very efficient way of distributing. I would just like to ask Mr. Christenson what kind of relationship you hope to foster between your bureau and the nongovernmental organizations.

Mr. CHRISTENSON. We have a long-standing relationship with PVO's in the food aid business. Actually inside the bureau, there are two offices. One is the Food for Peace office which provides the food and then we have an office of Private Voluntary Cooperation which provides strengthening grants to the food aid and other PVO's.

You talk about PVO's—one of the things that is striking is how much they vary; some of them don't do food aid at all and some are absolutely crucial to the food aid program. I plan to have an excellent—I hope to have an excellent relationship with them.

With tiny bit, we are sort of the intermediary between our Inspector General in the PVO community which doesn't necessarily endear us to either one of them, but that is part of the game and we have to work with them.

We hope to meet with them and try to find some ways as I have mentioned earlier to streamline our procedures. Again, I mean, our PVO's are asked to do a great deal and under some extremely circumstances and I am not quite sure that our policies and regulations are fully consistent with the environment which the food aid business takes place.

Mr. HALL. Do you meet with them on a regular basis to discuss your concerns and the directions that you want to pursue?

Mr. CHRISTENSON. I have met with the food aid PVO's as a group and then I have met with them individually as part of this process of rethinking our food aid. I have tried to meet with people individually to toss ideas back and forth rather than in large groups.

There is aggression of law conversation that does take place if you get a huge room. You don't get the follow-up of one question and ideas don't flow generally because there are too many people in the room, but individually, I have met with a lot of them.

Mr. HALL. A question for all three of you relative to our title I programs, especially on the relative importance of poor countries. Supposedly these title I programs were set up to get various concessions from these governments, but title I debt is a tremendous burden to these countries. Piling more title I on top of them doesn't seem to be working so well, at least in some of the countries that we have seen.

Do you believe it is time that we stop burdening some of these countries, for example, countries like Bolivia and El Salvador, Sudan? I would be interested in your comments.

Mr. GOLDTHWAIT. We certainly believe that each country needs to be looked at individually in terms of its suitability for programming under either title I or title II.

In fact and in the case of many countries, there is programming under both titles. We also at times, when we think the need is particularly warranted, transfer funds from title I to title II, so that an immediate food need can be met without increasing debt.

I would be reluctant to say that all of title I should be looked at in terms of a grant, but certainly the cases of individual countries can be reviewed as to whether or not they are suitable for continued title I programming. My colleagues may care to add something.

Mr. ARCOS. Let me just say that as we understand it, Public Law 480 title I is a loan, not a grant program and as you correctly stated, Mr. Chairman, increasingly when we look at Latin America and particularly Central America and we look at the debt burden of these countries and their ability to repay, clearly these are considerations that one has to look at very closely.

Even though we have made these loans available on a highly concessional basis, your question about the capacity for repayment is legitimate. One and that we look at very closely. In the cases of El Salvador and Honduras, they have more of a problem right now and they are also receiving title II as well. Unlike Costa Rica and Guatemala which have not had much of a title II program.

Certainly all four of these countries have a problem and not just Central America. I am speaking to you about Central America because that is what I oversee, but in the comment about Bolivia and other countries of the region, clearly, back again to the issue you posed or the concern you raised about repayment, is one that we have to continuously look at as we move forward in this administration's efforts to find a solution to the debt burden and how we deal with that.

This is something we are looking at overall and we have been looking at in our review policy toward the region.

Mr. CHRISTENSON. I would just like to join my colleagues in saying this is something we have got to look at. In giving out title I, one of the first things you have to do is to get a country to make payments on its arrears and it does seem to me that one kind of just—they get current on their arrears, you do a title I program with them and then a year later, you are arguing with them to get current on their arrears and it kind of goes on year by year by year.

It does seem to me that we need to try to get a comprehensive strategy in dealing with the debt problems of these countries and with our programs and how they fit into those debt strategies.

Mr. HALL. I am looking at the sheet on title I versus title II, especially as it relates to El Salvador. In 1988, we gave in title I, $41.5 million. Title II for El Salvador in the same year was $12.9 million.

I think for 1989, the figure is around $35 million for title I. I am not sure what it is for title II as far as El Salvador, but there is a tremendous difference here.

Mr. ARCOS. Your question, sir, is why the difference or in terms of the trend. I am not clear about what you are trying to address here.

Mr. HALL. Well, I thought you got it backwards in answering the second question, when in fact, title I food allotments are so much more than title II.

Mr. ARCOS. Well, I did not mean to lead you to believe that the figures here were backwards. I was simply saying that title I is not a grant program; it is a loan program and I did not mean to say that that was less than our grant program.

I said we are looking into that. We understand the burden of these countries in terms of their capacity to repay as you raised in your question.

Mr. **Hall**. Are you in support of increasing title II and decreasing title I?

Mr. **Arcos**. I think that the main thing that we have to understand is what each of these titles serve. I think when we look at title I, the purpose of food aid is to help recipient countries restructure their economies so that they can set out on a path sustained in long-term growth.

Although repayment is not a certainty, if this economic transformation is successful, recipient countries will be in a much better position to repay their obligations and I think this is what we should be striving at, in terms of aiding countries such as El Salvador, to get on a footing where they will be in an economic situation where they will be able to repay.

I think that it would not serve us in the long-run just to give grants and to not allow them or should we say stimulate them to produce or to grow.

I think when we look at the purpose of this and the purpose of title II I think that we as a government choose to give them the grant because of dire need.

That, I think, is a different consideration from that and a more transitionary situation that you might find in most of these economies, so I think we are trying to support them in that direction in a more constructive and in the out years, that they can be able to meet these obligations without creating this a dependency under title II than if we were just to give everything to them and not allow them to look at their needs to restructure their economies.

Mr. **Hall**. I know it is designed to work that way, but it doesn't seem to be working that way at all. It seems like we get a lot more punch for our dollar if, in fact, we use title II and give it through nongovernmental organizations, get them to be part of the development assistance of these various countries.

I know what you are saying about title I. We ask for the concessions, but we don't seem to back them up, and it continues to put a tremendous burden on these countries.

Mr. **Arcos**. I understand and I'll address that. In terms of the capacity for repayment when clearly, as I stated here, we are not even certain of their ability to repay when you consider the conditions of 40 years plus when the grace period is expired.

Mr. **Hall**. Mr. Upton.

Mr. **Upton**. Thank you, Mr. Chairman. I apologize for being late. I further apologize for having to leave early. This is one of the days that Members of Congress wish we had a Xerox machine where we could make a few copies of ourselves so that we could attend our mark-ups and our committee hearings that are all scheduled at the same time and still meet with constituents.

I do have a couple of questions I would like to ask. Mr. Goldthwait, you mentioned in your testimony that there were a number of provisions you felt were no longer relevant. As we look to the future for the Public Law 480 program, I would be interested in hearing some of your suggestions and specific recommendations for change so that we can better serve the rest of the world.

What specifics might you recommend?

Mr. **Goldthwait**. Well, we have, to begin with, a number of provisions in the program which have not been used in some years, for example, sections 107 and 114. The section 107 program is designed to enable us to make a title I loan to a private entity rather than a government.

In theory, it is something that supports our overall desire for privatization in developing countries, but in practice, the last time that we were able to structure a successful program under this particular provision, was in 1973.

I think what we have found is that the quantity of resources that are demanded to put such a program in place and to make sure that it operates in an accountable fashion is so large as to make it somewhat impractical as part of the Public Law 480 program.

There is a further provision, section 114, that I made reference to which, in effect, allows us to grant forgiveness for a processed component of a commodity that has perhaps a mixture of both a bulk commodity and some processed product in it; for example, a soya milk type of product, but the provisions of the legislation are such that this can only be done where it ties directly into a market development or where it has a direct market development impact.

I think what we have found to be the case is that the countries which might most make use of this particular provision are not those where we see any market development chance for this kind of product.

So, again, we have a provision which has not been used in a number of years and certainly is, I would say, up for review whether it is restructured or whether it is eliminated or something else, but there are a number of things like this throughout the legislation which we are very interested in taking a look at.

Mr. UPTON. I would like to know if you could submit to my office or to the committee a number of suggested changes so that when this legislation does come up that we might have a look at it by the full House and during the floor debate.

I would be most interested to see your comments on each of the specific changes that you recommend. Mr. Christenson, in your testimony, you had talked about a number of things. What countries have actually graduated from title II to title I, the concessional sales and finally to the primary reliance on the commercial sales?

Mr. CHRISTENSON. Sir, at one time we were large contributors of food aid to Korea and Taiwan. Many of the newly industrialized countries in earlier times who were recipients of Public Law 480 are now commercial markets for us.

We may have residual programs targeted at particular groups that don't have access to food in the commercial market in these countries, but they are pretty much graduated.

Mr. UPTON. Last, Mr. Arcos, what would be the effect on El Salvador both on the its economy as well as its social structure if the food aid program were substantially reduced?

Mr. ARCOS. I think that one of the first things when you consider and look at the situation in El Salvador that this country, perhaps probably a little bit smaller than Massachusetts, obviously, a different terrain—their ability to produce basic grains and if we were not to have a program such as this one, I think it would encounter an enormous problem in terms of their balance payments.

First, obviously, we wouldn't have a human misery problem, and then, if they were to move in the direction of purchasing their needs, their shortfalls, we would have enormous problems there and I don't see how they could repay that or even get credits for that matter—quite frankly at this point given their situation.

So, I think it would have a very negative effect on any possibility of improving the economic situation there.

Mr. UPTON. Thank you very much.

Mr. DORGAN. Thank you very much. Mr. Arcos, let me ask a question about title I and title II, food aid. Some preliminary calculations by the Congressional Research Service demonstrates that by far, not just close, but by far the largest per capita recipient of title I, food aid, in the world is El Salvador. What would be the reason for that?

Mr. ARCOS. Well, I think when you look—the question I was just asked by Congressman Upton in terms of what would happen if we did not have such a program. I think one would look at what's happened there in almost 10 years of conflict. It is a very small country, and the disruption of the economy and distortions that have happened all stem from that. I think that the need there has been certainly increased in the last 10 years.

We would hope that if we can reach or see a political settlement that brings the war to an end, I think that we can begin to be more hopeful that they will not have these needs in terms of title I or title II, as well as the rest of our economic assistance to the region.

Mr. DORGAN. Mr. Arcos, has the need increased so substantially that it would show four times, five times, and six times the amount of title I food aid going to El Salvador versus other deserving countries?

Is there a reason that I don't quite understand at the moment that would propel title I aid in that quantity beyond just need?

Mr. ARCOS. Well, I think that if you look at the needs that they have and I just addressed the situation, the overall situation of El Salvador and you look at the other recipients and I will not speak for the rest of the world, but I would ask Mr. Christenson, perhaps, to address that and Mr. Goldthwait.

In terms of our recipients in the world, do they find themselves under the same situation of conflict of war, civil war, that has ravished this country for the last 9, 10 years? I think that is the key consideration and the ability of the economy to produce under those circumstances.

I think this has been the overwhelming reason for their increased need.

Mr. DORGAN. Mr. Arcos, it has been alleged that food delivered by CONARA is distributed by the military in El Salvador and I am looking at a picture, a photograph, that appears to be the military distributing food aid in El Salvador. Can you comment on that? Is that happening and if so, is that in contravention of law?

Mr. ARCOS. My understanding is, again, El Salvador presents a very special case in terms of the situation. I think most of your nonmilitary elements probably do not enter conflicted areas such as Chalatenango. I think the military's role is to offer security to them in areas like Chalatenango.

However, in the case there, perhaps I have not seen that picture you held up, sir, before, but I do know that the military in El Salvador has been involved in aiding the government in terms of the distribution of these goods simply because of the acute security situation concerns in the region.

Mr. **Dorgan**. But, if it is illegal, doesn't that cause some problems for you?

Mr. **Arcos**. They have gone for purely security reasons, for this purpose there. I might add, it is also for transportation purposes. They are not the ones that are actually setting it up and carrying it out. It is purely the security and the transportation aspect of it and given the nature of the situation there.

Mr. **Dorgan**. The reason I ask the questions about El Salvador, as you know, if you take a look at what the priorities have been in the last 8 years or so of how we move money through Central America, El Salvador has gotten the preponderance of the money in a wide range of programs and it is not surprising for me then to see the extraordinary distribution of title I in El Salvador.

It seems to me to fit some larger pattern of interest in El Salvador and there has been testimony by you and others that title I food aid is good and part as a way to provide balance of payment support, and as one of the questions that we need to try and understand the answer to is, how does the State Department help with the amount of title I food aid that it sees as appropriate in a particular country, particularly with respect to the question of balance of payment support.

Mr. **Arcos**. I think first of all in the case of El Salvador which you are referring to, sir, if you look at the figures of 1988 where we are and where we were even in the mid-1980's, 1984, 1985, and 1986, and you begin to look at the downward trend and you look into this year, 35 as you stated, sir, and for next year, 35, we are coming down from a high of 49 in the mid-1980's.

We would hope to see that sustained in terms of declining need. First of all, I would say that in terms of the balance of payments, I think the balance of payments cannot be divorced from development.

The balance of payment's deficit weakens the productive sectors of the economy. I also think that any goods provided on a long-term credit or as donations increase the real goods available to that economy without augmenting a balance of payments deficit which I addressed earlier and to Mr. Upton's question.

Mr. **Dorgan**. Well, let me discuss the numbers I have seen with respect to El Salvador title I versus title II. Title II is substantially less than title I and title II is the means by which we get food to hungry people out there in the country through PVO's.

I have witnessed a lot of delivery of title II food in various areas. I think it is some of the best of what we have to offer in America, the best of what we do in conjunction with private sector.

That is my interest, the amount of title I and the amount going to El Salvador versus title II. I am also concerned about amounts not going to other parts of the world. Let me ask another question if I might. The term "market development" as used by most of those who testified before us, can you tell me, what does market development mean to a country like Haiti or Sudan?

What do we mean when we talk about market developments 8 years from now? Can you give me some description of that?

Mr. **Christenson**. I will let my colleague from the Agriculture Department—council here reminding me that is their job.

Mr. **Goldthwait**. I guess the first comment I would make is that clearly some countries are more suitable recipients of title II which is a donation program as opposed to title I where we generally see the market development interest.

In the case of a country like Haiti, there is oftentimes a commercial import sector and oftentimes, they can, indeed, increase the quantities of imports that can be taken in if whatever they are normally buying is supplemented by additional imports under Public Law 480.

There may be some market potential, I believe even in poorer countries. Clearly, though, as you say, or in the case of some countries, the potential for market development is less than with respect to many others.

Mr. **Christenson**. Could I add something here though?

Mr. **Dorgan**. Yes.

Mr. **Christenson**. In the case of U.S. wheat, which is one of the major commodities of title I, developing a taste in countries where wheat products in many developing countries is developing a market, maybe not specifically for the United States, but for a temperate product, a temperate climate product like wheat, Haiti and Sudan—Sudan basically grows sorghum.

Over the years, we have converted the Sudanese urban taste, "we" being the world or perhaps even the Sudanese themselves have developed a great taste for wheat products instead of sorghum products.

In Haiti, Haiti doesn't have the climate that would be conducive to wheat, so, therefore, there is a market potential. I am sure in Korea, there is a lot more wheat products being consumed in Korea than would have ever come out if it had not been for the Public Law 480 program.

Mr. **Dorgan**. Let me just note that the Honorable Orville Freeman is with us and has a time schedule that we need to meet and I want to get him to the table in just about a minute.

I want to ask one final question, if I might. H. Con. Res. 145, the legislation that I have introduced with Congressman Penny and Congressman Bereuter and others in Congress to try to focus a different strategy and some different approaches in the way we deal with out aid to Central America, includes a provision that would urge the President to alter the distribution of food assistance in Central America by increasing funding for targeted assistance under title II of the Agricultural Trade Development Assistance Act while reducing the level of assistance to title I of the act.

I wonder what the administration's position would be on that provision.

Mr. **Arcos**. Let me just say this. This resolution was introduced only on June 8th. The Department has not yet had the opportunity to review its ramifications with all of the relevant offices within the Department and the inter-agency groups.

The resolution, as I understand it, at least in part, seeks to refocus aid, as you stated, food aid, to reintegrate any refugees into the mainstream of Central American life. The Department has already expressed its support utilizing all aid programs to accomplish the reintegration of refugees, but reserves judgment on how the specific mechanisms of food aid should be used for at this end.

I would state that this is the administration's position at this point.

Mr. DORGAN. I'm not sure I understand all of that, but——

Mr. ARCOS. We just have not, as I said, the opportunity to review it and consult with everyone.

Mr. DORGAN. When you do, I would appreciate having the opportunity to work with you and discuss it with you and I urge you not to check with the Office of Management and Budget as you make your decision. [Laughter.]

Mr. ARCOS. We often find that more of a wish. Unfortunately, we can't quite promise that, sir.

Mr. DORGAN. Well, you don't have to promise it; just don't do it. Let me ask, if I might—Mr. Penny is here—if we might ask the three of you to remain available in the event other questions develop this morning, if you have the time.

If not, I will understand, but I would like at this point to thank you very much for your testimony and because we want to get the next panel on and especially hear from Mr. Freeman at the front of that panel and ask him questions, I would like to thank you very much for attending today and Mr. Hall, do you have anything further questions for this panel?

Thank you very much.

Mr. ARCOS. Thank you, sir.

Mr. DORGAN. We will call the next panel. What we will do is call on Mr. Freeman first and then we would ask Mr. Denlinger and Mr. Hopkins to come forward when Mr. Freeman has concluded.

Mr. Freeman, thank you very much. We are honored to have you with us this morning. I understand that you have a time commitment that you must meet. We would like to ask that you make your presentation to us. We will make your full statement a part of the permanent record and ask you to summarize so that we might have time to ask you questions.

Mr. Freeman, welcome.

STATEMENT OF ORVILLE FREEMAN, REPRESENTING CARE, AND PRESIDENT AND CEO, AGRICULTURAL COUNCIL OF AMERICA, ACCOMPANIED BY CHARLES SYKES, CARE

Mr. FREEMAN. Well, thank you very much, Mr. Chairman. I certainly appreciate your courtesy in adapting a bit to my schedule. I do have a pressing, long-standing commitment at noon and you are most gracious to acknowledge it.

I am very privileged and pleased to have the opportunity to testify before this committee where I have observed with great interest your work over the brief period since the committee came into existence.

I would like to start by most sincerely commending the committee for having a major impact in the field of food and hunger. This has been an area of fundamental interest to me for most of my lifetime.

I am also pleased to comment that the work of this committee has been completely nonpartisan. Witness that the committee was reauthorized unanimously. That was a very special vote of confidence. It has been my observation over some 30 years of watching the Congress quite closely that unanimity is very seldom the case.

I would like also, if I may, to express my great appreciation for the work of my fellow Minnesotan on this committee. As you know, he has joined in furthering some of the committee's actions and recommendations that have been of great importance.

In connection with Congressman Penny, I would only say that I ran for statewide office in Minnesota six times. I won three times; I lost three times; I got as little of the vote as 35 percent and as much of the vote as 58 percent, but as a Democrat, I never carried the first congressional district.

So, quoting Kipling, I might say, "You are a better man than I am."

Mr. DORGAN. Or you are no Tim Penny.

Mr. FREEMAN. I hear you. It is really a great privilege to be here. There is extensive testimony that was prepared by Charles Sykes of CARE that was submitted for the record. I will make some reference to it. I will summarize my remarks to keep them brief, and I look forward to trying to respond to your questions.

Just a quick comment in connection with background. I mentioned initially that my interest in hunger was not a recent one. I have tried to explain in forums all over the world, but not adequately, how can it be that we live in a world full of food and at the same time full of hungry people.

It simply does not make sense. I have never been able to explain adequately, even to myself, why we haven't been able to make more progress in correcting that paradox. Hoping to make some impact on it was one of the prime reasons why I responded to the invitation from President-elect Jack Kennedy to become U.S. Secretary of Agriculture in 1960.

In that connection, on a day in December in 1960, on the front porch of his home in Georgetown, when he announced the soon-to-be U.S. Secretary of Agriculture, President-elect Kennedy said the "greatest economic problem facing rural America is inadequate income and low international commodity prices." This was what President-elect Kennedy said and I took that as a mandate for the 8 years that I served as Secretary of Agriculture.

Today, the greatest paradox facing our world remains a world full of food and full of hungry people. There is a common answer to both challenges, and that is to build the economic base around the world in Third World countries where the need is great, where hunger is rampant, and where there is a great potential for developing markets and exports.

When I say that, I don't speak particularly for CARE, which is not commercially oriented; I speak more for the Agricultural Council of America, for which I serve now as the president.

The first major legislation passed by Congress in 1961 was an important farm bill. It was a feed grain program which made it possible for us to get a handle on the then burgeoning surpluses that filled every inch of storage in 1961.

It passed the House by two votes and was signed into law by August. In November, I put together a team of top professionals from USDA. We spent 3 weeks touring Asia, reviewing opportunities to utilize so-called surpluses of the United States to meet human needs and, at the same time, to help build the economies of those countries.

Mr. Chairman, I would like to submit for the record, the first two pages of a report that I made to President Kennedy on November 30, 1961. It is marked administratively confidential. There are nine specific points. Each of them is as valid today as it was 30 years ago. There is more detail in connection with the implementation of each of these recommendations that I will make available for the record if the committee wishes. I do not want to load the record, so at this time, I would like to ask you to put this summary in the record.

Mr. DORGAN. Without objection.

Mr. FREEMAN. The philosophical bedrock of a commitment to end world hunger is poignantly articulated, as this committee well knows, in the House-Senate Concurrent Resolution declaring the right to food to be a national policy.

Let me quickly quote it for the record. I have used it many times. "Every person in this country and throughout the world has the right to food, the right to a nutritionally adequate diet. This right is henceforth recognized as a cornerstone of U.S. policy by both Houses of Congress." I believe that the Congress passed this resolution unanimously.

I would make the point, and it has come up in some of your questions so far today, that the right to food and human dignity are meaningless unless we recognize the right of human beings to achieve levels of social and economic development which enable them to command access to the food that they need and to which they are entitled.

I mentioned in my opening remarks the respect that I have come to have for this committee and what you have done. Let me say, speaking for CARE, some of the issues that we do particularly admire that you have addressed: child survival, Africa famine, vitamin A, the role of women in development and poverty alleviation. These are all important issues addressing hunger and ways to combat it.

Thanks to the support of this committee, as you well know, and the support of its individual members, title II of Public Law 480 in the Basic Farm Act of 1985 was substantially strengthened.

These amendments, and the cooperation of the Agency for International Development and the Department of Agriculture, makes it possible for CARE to reach 33 million people with food aid in emergency and development projects today.

The support of this committee was also important in making it possible to immunize 1.8 million children under 5 years of age in this year alone. But so many of the children immunized against early childhood diseases are also malnourished.

Public Law 480 and title II food commodities, as this committee well knows, supplements the diets of these children. These laws also serve as an incentive for mothers to bring their children to health centers for immunization and other forms of low-cost health service and interventions which this committee has strongly supported over the past several years.

Other nongovernmental organizations like Catholic Relief Services, the Adventist Development and Relief Agency, and World Vision, can also point to their accomplishments in this field with equal pride and can trace their success in linking child survival and title II Maternal/Child Health Programs back to the work of this committee. May I say that I am sure each of you feel a sense of accomplishment when you look at the record.

It must be remembered, though, that the NGO's which are working so closely with the U.S. Government in the title II program are not contractors. They are cooperating sponsors, responsible for the design, negotiation, and implementation of the programs in the field and, as such, they share the responsibility for the outcome of those programs.

Mr. Chairman, a new farm bill will soon be before the Congress. Let me now outline key recommendations regarding how we might do our job better and what issues might be taken up as a part of the farm bill reauthorization.

As I have already stated, this committee, individually and collectively, was a powerful force and can be so again in shaping the farm bill that will shortly be before the Congress. That bill will be important in waging the war against hunger.

No. 1, it would be timely, I think, to address section 2 of the introduction to Public Law 480 and update the global food aid needs listed there in regard to both donor and developing countries. The agreement reached in 1974 at the World Food Conference and the targets set are not necessarily applicable to the circumstances we face today.

No. 2, a hard look at how we can better reach the poor and low-income communities with title II food aid and title I sales is in order. In our testimony on file, the second full paragraph on page 4 comments, I think, very succinctly and meaningfully in that regard.

No. 3, we need to strengthen our multiyear commitments to title II nonemergency programs. We need to ensure the availability of certain commodities for our food aid programs by building them into our supply management and international food security and reserve policy system.

Mr. Chairman and members of the committee, this is a critical question. We do not plan our food production to include humanitarian food needs. When the Secretary of Agriculture takes a look and projects the next year's supply and demand, there is no consideration given on the demand side in terms of humanitarian programs, food aid or development.

I tried to do something in connection with that when I was Secretary. During the 1960's, we were almost always in a strong surplus supply position. There really was no compelling need to take a hard look at the problem.

In the 1970's, when supplies were tight, it was a totally different question. In those years, the programs to which we addressed attention suffered from lack of supply. What I am saying is that these humanitarian and development programs are carried out only when, by happenchance, when there happens to be so-called surpluses that do not move directly into commercial markets.

When the Secretary looks at the demand side, a number goes in the demand side: *X* amount for the country's needs and commercial exports. When acreage allotments are made under supply management programs, they are made with that number in mind. But no consideration is given to the needs of hungry people, or to how food might be used for humanitarian and development purposes.

It is important that this need be understood. We are not going to have effective multiyear programs unless we can guarantee multiyear supply, and we ought to produce for that purpose. May I say also, putting on the hat of a previous Secretary of Agriculture, if we plan and produce for multiyear programs a market will result for our producers that will help strengthen prices throughout the country, thereby building strength and support for the multiyear programs. This point is developed at some length on page 4 and at the top of page 5 of the testimony on file.

Also, if we are going to have multiyear programs, it is going to be essential to have additional dollars to effectively and efficiently start and manage these programs. This is particularly true in Africa, where the physical infrastructure is so weak.

Mr. Chairman, I want to bring this testimony to a close.

[The prepared statement of Mr. Freeman appears at the conclusion of the hearing, see p. 72.]

Mr. **Freeman**. I speak now, again, as the president of the Agricultural Council of America, rather than necessarily a member of the Public Policy Advisory Committee of CARE. I would like to file a draft of a presentation made by an eminent international economist to the Winrock Foundation, Dr. John W. Mellor.

It is entitled "From Hunger to Food to Commercial Markets." It points out the great development potential in many localities of the world where there are human and physical resources, but the infrastructure is such that the technology, know-how and needed inputs never get to the localities in question.

If production does take place, the produce cannot move to market because there is no infrastructure, that is to say, no roads to move it. Dr. Mellor's paper very carefully analyzes that circumstance.

In working with Dr. Mellor and the IFPRI organization, we are now seeking to identify a half-dozen places around the world that meet the above description, and to build a program in them to demonstrate how the use of food to meet hunger needs and, at the same time, to build roads, bridges, and the infrastructure necessary for development can yield results.

When you do that, and those localities begin to produce and stimulate the economy; when you reach the small farmers there who learn that, if they produce something, they can get it to market to sell; then the whole economy is stimulated. In turn, that builds markets for our own producers and U.S. exports begin to grow.

In short order, most of these countries are no longer able to produce enough to meet the needs of their people. We have heard reference today to Korea and Taiwan, and also to Haiti and a number of other places where food is of deep concern.

May I say to the committee, when I first went to Korea and Taiwan in 1961, both of those countries were basket cases; perhaps not as bad as Haiti, but even worse than some of the countries in Africa today.

The fundamental thrust in agriculture in those countries that brought them to be labeled economic tigers today and to become, in some ways, a competitive problem for us in world markets—not where agriculture is concerned, but in other areas—can be repeated today in other countries still labeled as basket cases.

To combine the humanitarian, and all the needs that can be met under title II, with development potential is what I believe is called for. How that can be done is the thrust of this paper that I hope the committee will permit me to put into the record.

Mr. Chairman, that's about it. As the work goes on in connection with the coming farm bill, I hope that this committee would consider the possibility of moving, into that new bill, specific provisions for multiyear programs making use of U.S. agricultural production potential.

It has been a great privilege to be here, and I thank you for your courtesy and thoughtfulness.

[The draft presentation of Mr. Mellor appears at the conclusion of the hearing, see p. 79.]

Mr. **Dorgan**. Mr. Freeman, thank you, very much.

Mr. Hall.

Mr. **Hall**. Mr. Freeman, with regard to the use of food in Africa for not only humanitarian purposes but for development purposes. Why don't we do more of that?

Where I have seen it work, it really brings up not only the economy of the people, it creates tremendous positive feeling. We get a tremendous amount, not only of good will, but we see a lot of production of irrigation facilities, roads, bridges, even the building of houses, in some cases which I have seen.

Why don't we do more development with our food?

Mr. **Freeman**. I can't really answer this question. The need is very real. The focus has been in other places around the world. It is true that Africa poses special political problems in many places. The internal political schisms that are tribal in their nature stem from the establishment of national boundaries that do not make any sense, and make it difficult for programs to operate.

Mr. Gold, of USDA, was in Nigeria. He was privileged to be there and to review what goes on in Nigeria, where the political state is significantly improving. I think that is also true in some other African countries and I think the answer to your question is: There is no reason why we can't do more and do it better, if we really put our minds to it.

What we need to make these programs go is a domestic political commitment and some political leadership. If I may use an illustration, between 1961 and 1964, the United States put a billion dollars plus of Public Law 480 title I into India each year. Positive results in economic development or agriculture were almost nonexistent.

In 1964 and 1965, we put 10 million tons of grain into India to prevent a massive famine from 2 years of monsoon caused failures. As a part of that program, we cooperated with the Indian Government and Minister of Agriculture by getting that government to launch, support, and put resources into a meaningful agriculture development program. That program was highly successful and has made India today so-called food self-sufficient.

I do not describe India as food self-sufficient. When you still have 500 million people in a subsistence economy falling far short of an adequate diet, the phrase food self-sufficient is highly misleading. Nonetheless, in the case of India, we were able to make a strong impact and get some things done that proved to be the key to establishing solid agriculture development programs in India.

You cannot always do that. Certainly not in every country in Africa today, but there are some things that we can and should do. It is a question of resources. It is a question of emphasis. It is a question of leadership and—if I may say so, and I do not speak now for CARE—cooperation between A.I.D. and USDA primarily, and such cooperation at the very senior levels is necessary to make things move.

I hope this committee would take a hard look at the operation, the functioning of the various committees, and interagency relationships, and make some recommendations. The Congress certainly can be influential and should insist that the entire operation be streamlined and improved to work much more efficiently.

I think you ought to get both the Secretary of Agriculture and A.I.D. administrator to appear before you at the same time. I would suggest that you find out how much of their time and interest they devote to these programs, which are so fundamental. Frankly, the programs are not going to move very fast in the absence of real interest at the top.

Perhaps Cooper Evans, who was in this body for many years and is doing a fine job as a Special Assistant to the President on Agricultural Export and Development, should take a good hard look at what works and what does not. I think the machinery can stand a lot of streamlining.

Mr. DORGAN. Cooper Evans was a member of this committee.

Mr. FREEMAN. Yes, sir. I know he was.

Mr. DORGAN. Mr. Freeman, one more question from me. Do you believe that the PVO's are pushing hard enough, including CARE, on this whole development assistance of using food?

Mr. FREEMAN. Yes. I think they are pushing very hard. I think they are moving despite great frustrations. I think the people within the Government come here and say nice words about them, but the people in Government are not really as responsive as they claim.

There is a tendency for some to deal with PVO's as contractors rather than as responsible, important partners who can go into these developing countries informally and get the feel of the country. They also can have continuity. They have real sensitivity.

They can program both humanitarian and development initiatives at the same time. Both should march down the road together, except in real famine disaster circumstances, and even then as much as possible.

My experience and observation is that most of the PVO's are deserving of every support and they do not always get it. The frustrations of bureaucracy are inevitable. The people that operate under it have their problems, but I do not think the machinery that carries these programs forward, as I have observed it in returning to Washington the past 4 years, is working very well.

I think this committee ought to take a hard look at how to improve the process. Frankly—and, of course, in being quite critical, I am not speaking for CARE—I gather that the big bill that is before Congress now does not address the question of fundamental reforms in the aid machinery.

A lot of people, including myself, are very disappointed with that. Basic fundamental reforms, including changing the acronym of A.I.D., are called for by definition. That word says assistance, poverty, relief, and all that goes with it. The name was a happenchance, anyway, and ought to be changed to encompass development as well as assistance.

Well, apparently, such a change is not going to be grappled with now. If change doesn't get in the big bill, maybe this committee will still take a hard look at the system. It needs to be looked at critically.

Mr. DORGAN. Questions of Mr. Freeman?

Mr. Penny.

Mr. PENNY. Thank you. Welcome, Governor. The first thing I want to say is that my involvement in politics stems back to the fourth grade. In 1960, our teacher in elementary school in Mansfield Township allowed all 30 kids to vote to give us an idea of what our folks were up to. While you may not have carried my district, I voted for you and John Kennedy.

It is that administration, with the Alliance for Progress and Peace Corps and Food for Peace, that inspired me to pursue a career in politics and to ask for assignment to this committee. The mission is not accomplished.

I am disappointed to know, but not surprised to learn, that of those recommendations that you made those many years ago, the fulfillment of those objectives has not yet been achieved. I, in spite of being around this town now in my fourth term, have not been able to figure out just what the resistance is.

You mentioned one relatively simple suggestion and maybe you can help me to understand what the barriers are to counting food aid needs in our supply management programs down at the Department of Agriculture. Who are the folks that stand in the way of that? What are the benefits of keeping this uncounted for purposes of planning for farm policy and food uses?

Why is it that we continue, after all these years, to pretend that we do not have year-in and year-out needs around the globe for food aid and do not plan accordingly?

Mr. FREEMAN. I really can't answer that question. Maybe it is because this committee was not in existence to seek an answer and to hold the people now in office accountable for not coming up with it. It just has not happened.

There is a tendency to say, "Oh, funny money. This is relief. What do we get for it, budget problems, et cetera." It is the usual struggle to get good things accepted and carried forward.

Mr. PENNY. How would you recommend to those of us who also serve on the Agriculture Committee, that we craft language in this regard? How would we identify the quantities or the formulas that ought to be considered as the Department of Agriculture makes its year-to-year plans for farm programs?

Mr. **Freeman**. Congressman, I think that would be relatively simple. Within the guidelines that come from the Congress, the Secretary of Agriculture sets the parameters on the supply side in terms of allotments and acreage.

The Congress should offer a sentence, or maybe a short paragraph to the effect that as a part of making those determinations, the Secretary should take into consideration the volume needed to maintain programs of humanitarian food relief and economic development on a multiyear basis. Congress sets the guidelines. It would be up to the Secretary of Agriculture to interpret them and carry them forward and then for you to be certain he had done it with sensitivity and responsiveness to your directions.

Today there is nothing like that. As I say, I tried to do it but, during most of the 1960's, we had enormous so-called surplus carryovers. So, what's the reason? Then when it got tough with short supply in the 1970's, the conclusion was, "We can't afford to do that. We have a short supply situation." That was during a period when we even embargoed soybeans.

Now, we are moving toward tight supply again. As you well know, the carry-over globally is at an all-time low, and if we had major short-falls in food production around the world, we would face very serious food shortage problems.

However, when scarcity is not upon us, to be sure that both humanitarian and development needs, are a part of the equation, the Agriculture Committee should declare that multiyear food programs be considered and present some broad guidelines. Then the committee should watch carefully what the Secretary of Agriculture does.

Mr. **Penny**. In years when we have a drought or for some other reasons, experience a shortage, how can we provide protection for the basic minimums that are required for some of these overseas efforts?

Should we build into our formula a quantity that would allow a certain amount to carry-over into a permanent reserve that would fill out our food aid needs in those years when maybe domestic production is so short that there is not enough quantity to put into that program?

Mr. **Freeman**. That would be a good way to do it. I used to have a formula of how much reserve we should carry. I recall that then it was at least 400 million bushels of wheat. If you have to choose between too much and too little carry-over, you had better decide for too much.

We should also be prepared to buy, where necessary, through the Commodity Credit Corporation, the grain that is going to be needed for those purposes so we can continue sound long-term programs.

Mr. **Penny**. A couple of other questions. If you move in to buy and that is going to compete in the private sector, I am just trying to sort through how we can hold a certain amount in reserve without the markets somehow factoring that into prices.

I think you are absolutely right, that some of that ought to be set aside. I want to provide some assurance to producers out there that, in setting this aside, we are not going to be sending a constant signal to the market that prices should be lower because this stuff is there.

I mean, I want to segregate this in a way so that we do not get this baloney from the grain buyers that we are driving prices down because we have got a food-aid reserve. Right now, one of the problems you have got selling this in my part of Minnesota is the fear that any kind of a surplus is going to keep prices down.

It pits farmers against hungry people around the globe, and it does not have to be that way. So, how would you segregate the quantities and keep it from having that kind of a price depressing effect?

Mr. **Freeman**. I think the best way would be to make it clear in the legislation and in the history of the legislation, that certain ground rules are to be followed to firmly insulate a given amount from the market, with clear provisions spelling out that it will go into use only when it is needed for overseas commitments and when market prices are moving up strongly.

Then, as a part of the package, I think you would need to bring to the attention of the farmers and the public that what we are carrying forward here are meaningful, long-term programs that have a real commercial meaning to the future prices in the markets for those farmers.

If it is claimed that there are some intangible effects on the market—I was hung with this criticism constantly—the point can be made that there is a little bit of risk in everything. Let's suppose a carry-over has an intangible, immeasurable market impact. The response to offset that fuzzy, uncertain effect will be the building of future markets.

Also, the carry-over makes possible continuing enlightened programs that you talk about in church on Sunday as well as commercial marketing building that helps when you go to market on Monday.

You are an articulate, able representative. I think you could sing that song very well.

Mr. **Penny**. One other area that I wanted to pursue quickly, and then I will let others question you, and that has to do with monetization. In your testimony, you mentioned targeting the purposes toward which that food should go.

Do you have examples of inappropriate use of the monetization authority or are you just concerned that for the future, there could be problems if we do not target that food use?

Mr. **Freeman**. No. 1, there may be examples of poorly managed Food for Work Programs with careless handling resulting in competition in the marketplace on price. An adverse effect on producers in that country results in making it more difficult to get that agriculture economy moving, but these examples are rare.

We have learned how to avoid adverse price results. That today need not happen. What we have set forward in testimony today is a number of ways to move food into constructive use with special food distribution shops with lower prices for people who are not a factor in the marketplace, to use certain kinds of food that low-income people may want but for which there is no market demand, to do School Lunch and Food for Work Programs, et cetera. Such programs do not affect the market price.

There are any number of ways to do that. CARE would be happy to get together, I am sure, for the record, some specifics of where food has been constructively used without affecting price in the marketplace.

It is easy to criticize food programs. On occasion, poor management and sometimes local interference have blocked efforts to get food to people who need it. There have been leaks to the black market.

Speaking for CARE which I have watched operate for many years in many countries, I can say with confidence that CARE does not manage that way. Most PVO's are operating well today.

But, if you are going to have good management, you do have to have some money in order to operate. Monetization makes possible the resources to operate efficiently. Congress does not appropriate money for CARE. It is an independent organization. But in this monetization, the local currency can be generated.

Mr. PENNY. Thank you, Governor.

Mr. DORGAN. The Chair understands, Mr. Secretary, that you have to leave at some point soon, 11:30, I guess.

Mr. FREEMAN. That's the target.

Mr. DORGAN. We greatly appreciate your indulgence. We thank you very much for your present here today and appreciate your testimony.

Mr. FREEMAN. I have enjoyed it very much. It has been an honor to be asked. I hope I might enjoy the privilege again. Thank you.

Mr. DORGAN. Thank you, very much.

The Chair intends to ask Mr. Christenson if he would come back up for just a few brief minutes, and then we will go to Mr. Denlinger and Mr. Hopkins for the next panel, which will be the final panel.

There were a couple of other items. Other members of the committee were not able to be here when your panel presented the information, and we did ask a number of questions about Central America, specifically.

I wanted to ask a couple of questions about a couple of other areas. Do you think, Mr. Christenson, it would be possible to use more grant food aid effectively in Africa and, if so, how much more grant food aid in Africa? Can you give us your impressions of that?

Mr. CHRISTENSON. I can't give you a number right off the top of my head. We are in the process of exploring these issues, so I do not want to get too far ahead of an interagency administration decision making process.

But, grant food aid that is monetized and is used to support development projects, this concept of converting what is now the long-term loan title I program into something slightly different, it strikes me that there is a large amount of development needed in Africa and that there is substantial room for activities funded with local currencies that would be generated by a conversion of the program from the long-term loan to the grant program.

In terms of title II, which is the direct targeted distribution of a particular type of commodity, I do believe that there is room for expansion. I am looking sympathetically at requests from African countries. I spent 12 years specializing in Africa and I happen to have a feel for it.

One of the challenges here is that targeted food programs in Africa are very expensive for the PVO community. The cost structure in Africa is much different than the cost structure in a Pakistan or an India or Bangladesh where you can get a lot of qualified, well-educated employees for $6,000 or $7,000 a year.

In Africa, in many parts of Africa, you have to use expatriots. That requires somebody who is paid a European or American salary, who get housing and schooling for their children, it may cost $115,000, $120,000, even $150,000 per man a year to maintain somebody in Africa.

So, we have got to work on that cost problem with the PVO's in order to keep them there and to enable them to expand.

Mr. DORGAN. Is it your impression there is the potential for substantial expansion of title II around the world or just in specific regions?

Mr. CHRISTENSON. In specific countries, let me say that title II responds to requests from the PVO's and from the World Food Program. You have to address their ability to handle this before you can expand the program. You cannot do this unilaterally.

Mr. DORGAN. If their ability to handle an expanded program was self-evident and they expressed that interest, would you think there would be room for substantial expansion in title II and would you support that?

Mr. CHRISTENSON. I think we all, in the food business, believe that there is a need for feeding and targeted assistance that exceeds the availability of funds, not only our own but throughout the world. That is one of the reasons why we are very interested in proposals to encourage the Japanese to expand into this area.

However, one does have to keep in mind that if you have a fixed sum of money and you have a certain amount of money in the 150 account, this is just one of the competing programs inside the 150 account that do good works. One can do one thing in one place, but it is at what cost.

I am not in a position to say that my program should necessarily be funded at a level that would require the diminution of other programs. I just cannot do that.

Mr. DORGAN. I understand that, but the reason I asked the general question is that some of us feel very strongly that title II is an extraordinarily effective program, and some of us would like to see it increased.

I was just trying to gauge your attitude about that, because if you've got folks downtown who say, "Well, I am here to administer it but I am not going to be an advocate for expanding it in areas where expansion might be necessary," that obviously does not give it the impetus that we would like to see it have in the budget process.

I was just trying to gauge your interest in it and interest in expanding it.

Mr. CHRISTENSON. I am a full believer in this program, which is why for years I have wanted this job and I got it.

Mr. DORGAN. So, now, are you going to be a missionary rather than an administrator?

Mr. CHRISTENSON. No.

Mr. **Dorgan**. The intent of my question is to try and understand the zeal with which you are interested in moving these programs along. I feel very strongly about some of them and I am a missionary about them, almost, and I hope you would be, as well.

Mr. **Christenson**. When you are in the executive branch at the third tier, you have to be careful that you act like you are supposed to act, you know. OMB approves my testimony and all of that, so I cannot go too far.

I do believe that there is a very valuable purpose served by both title I and title II. I see that they can do a great deal to relieve human misery. But, in administering these programs, one does have to accept the fact that there are competing interests within the program.

Title II tends to be more corn-based or corn-soy or sorghum-soy grits or things like that, and there is legitimate interest in other commodity groups in having an export program or a Public Law 480 program that includes their product. Rice has a chairman of the Appropriations Committee in the House and other powerful members who wish to be included. Public Law 480 wheat shipments are mostly title I, and I am a full supporter of that, as well.

Mr. **Dorgan**. Mr. Christenson, I am pleased to see someone who is excited about this job have this job. I think you can be an effective spokesperson on behalf of these programs working with us, in trying to do the best we can all around the world, for the people in the world who need our help.

We appreciate very much your willingness to wait around and testify. Would you join us—join me, at least—in support for the abolition of the Office of Management and Budget?

Mr. **Christenson**. I would have to get that cleared by OMB before I could give you an answer. [Laughter.]

Mr. **Dorgan**. I won't wait around long for your answer, then. Anyway, we thank you very much for your testimony here today.

Mr. **Christenson**. Thank you.

Mr. **Dorgan**. We do have two others who are going to testify on the final panel. Mr. Gilman, did you have any questions?

Mr. **Faleomavaega**. I did have some questions. Is the gentleman also catching a plane?

Mr. **Dorgan**. No, no. He has his office here in town. He is available.

Mr. **Faleomavaega**. Are we behind schedule?

Mr. **Dorgan**. Go right ahead.

Mr. **Faleomavaega**. Mr. Chairman, I thank you. I am sorry for being a little late, but I would like to submit my opening statement and have it made part of the record.

Mr. **Dorgan**. Without objection.

[The prepared statement of Mr. Faleomavaega appears at the conclusion of the hearing, see p. 44.]

Mr. **Faleomavaega**. Second, I appreciate the dialog with Mr. Christenson concerning this issue that we are discussing this morning. I am a little puzzled, too, in terms of all we have heard about the Food Aid Program.

What complicates the issue is not just the fact that we are so humanitarian about giving food. We also do it to promote our own foreign policies, as the distinguished gentleman from New York well knows.

It is not necessarily for humanitarian reasons that we give food, but also for the development of our own markets as far as the world market is concerned, so with these factors interplaying among themselves, this really causes the issue to be a little more complicated than it really is.

I am trying to get a better feel. Isn't the problem here that we give food away but we really have no programs? We go back to the Chinese proverb: You feed a man today and he is going to be hungry again the next day. If we teach the man how to fish or how to plant or do this, then he will be able to feed himself for the rest of his life.

So, what really is our objective in feeding people who are in need, if only for 1 month or 6 months, what happens after that? This is where I am a little puzzled in terms of our Food Aid Program. We do it, not necessarily because we really want to help those people, but because it also promotes our own self interests in the process.

Am I wrong in that assessment?

Mr. CHRISTENSON. Sir, years ago, when I was a Senate staffer, we had a hearing on food aid and Peter McPherson was speaking and he said to the Senate Foreign Relations Committee, "Every Government program has multiple purposes." I was sitting where Tony Gambino is sitting and I thought to myself that he was right, that I was wrong in that my focus of attention was on a particular purpose, and Government programs do not ever have one purpose.

I think of a construction program for Embassy buildings and, all of a sudden, it was how can we use this to promote American general contractors and how can we do this and this and this.

Mr. FALEOMAVAEGA. How about a $90 million Embassy in Thailand?

Mr. CHRISTENSON. All Government programs, in order to put together a political coalition to get them through Congress and to develop public support, often have to reach out beyond a narrow limit. One has to accept that and one has to not only accept it but support it, and I do.

With respect to what happens after we feed people, it is not just this program that is responsible for the next step. A.I.D.'s entire effort can be interpreted in some ways as being an anti-hunger program, that if we can get economies moving, if we can expand job opportunities, higher standards of living and opportunities for the public, the people of a particular country, they will eventually get to the point where they feed themselves.

In the history of this program, we started off in Korea feeding people and we now have a Korea which, on its own, buys vast amounts of food from the United States, which is good for the American agriculture community, but it is also that people in Korea have the means and the wherewithal to feed themselves, probably at a higher standard of living than we could ever afford if we were still in the business of feeding them.

It is important to look at job expansion, to look at the development activities in agriculture, world development, the health and human services, education, transportation programs, building bridges, airports, ports, whatever. That is all, in the end, part of the economic development and that addresses the hunger issue.

Mr. **Faleomavaega**. The irony of life sometimes, Mr. Christenson. We have an expression in the Samoan language. You keep feeding the dog and the dog will turn around one day and bite you. Thank you, Mr. Chairman.

Mr. **Dorgan**. Thank you.

Mr. **Gilman**. Mr. Chairman, just one or two questions.

Mr. **Dorgan**. Mr. Gilman.

Mr. **Gilman**. I note in a great deal of the testimony that has been here and I regret I was delayed because we had another committee, that there was some note made of tying in the environmental problems with our aid program.

We've done too little of that in the past, and we are pleased that finally the World Bank is beginning to do something in that direction. We are beginning to place into our foreign aid bill some mandates with regard to attacking the deforestation, the decertification problems, the rain forest problems.

Do you have any recommendations as to how we can be more effective and do a lot more in that direction? After all, that attacks the root causes of droughts and so many of the other famine problems that we have around the world.

Mr. **Christenson**. I have thought about that a lot in the past year or so. I am an Africa specialist and I have travelled a lot in Africa. You look at the Sahelian region and it looks like Eastern Colorado or Western North Dakota. It is an area that really is grazing land; it is not crop land and it really will never be crop land. Yet, people there are forced to till soil that should not be tilled because they need grains in addition to the livestock.

It seems to me that if somehow, you could have a food strategy that would guarantee these countries with a level of cereal product in order to allow them to go back to grass land and develop a viable livestock sector, that we might be able to address the decertification of the Northern Sahel.

We have to look upon this as a way of guaranteeing them some stability of food resources in order to get them to convert, in the short-run, from one type of agriculture to another. That is where I would think somehow we need to work on it.

I do not have any strategies. I do not have any papers on this, but it seems to me to be an area that would be fruitful to look at.

Mr. **Gilman**. I would hope that you would be concentrating a little more in that direction as you try to develop some policies in these programs.

Another area that we hear a lot of criticism about is when we develop a Government program a public law for any program or any of the other A.I.D. programs, that we do not do enough consultation with local government or with the local people; that we do not get them involved in the planning process.

Would you care to comment on that?

Mr. **Christenson**. I would have to say that from what I have seen, from being there 6 months, that we do a lot of consultation with the local government on at least my side of the Public Law 480 program in terms of what products, what kind, and try to work that out as best we can.

I have not seen any problem of failing to consult, at least at my level. There is another aspect where the A.I.D. mission then picks up the ball and runs with it in terms of using the local currencies that are generated or doing the actual on-the-ground implementation of the project. I have not seen that so I cannot comment on it.

Mr. **GILMAN**. Built into the statutes about 2 years ago was a need to get some environmental assessment of any A.I.D. project before it is implemented. One of the problems we find is that there are too few trained people out there that can give an appropriate environmental assessment to come back here to Washington so that people can examine what the problems are.

They usually have someone in an Embassy who is not doing anything and they tell you to go out and get a couple of ideas about how this affects the environment, write a memo, send it off to Washington. Then, when we confronted the administration with it, they said, "Well, we've got shortage of personnel and shortage of funds.

Would you care to comment on that aspect of trying to do something about these environmental problems?

Mr. **CHRISTENSON**. Sir, the A.I.D. Inspector General very much is somebody who, when helping to come up with the staff recommended numbers for the A.I.D. budget, as a Foreign Relations Committee staffer, I had a prejudice against the operating expense, too.

The big saw in Washington is what you think depends on where you think, but now that I am sitting at A.I.D., I can see that I probably should have been more generous on operating expenses. We are very, very constrained in that area and we need help.

Mr. **GILMAN**. I would hope you would take a look at who is supposed to fulfill the responsibility of determining an environmental assessment of a project, and make certain that there are adequately trained personnel out there.

Otherwise, the whole statute is worthless if you do not have some expertise out in the field taking a look at these programs.

Mr. **CHRISTENSON**. I agree with you.

Mr. **GILMAN**. Thank you. Thank you, Mr. Chairman.

Mr. **DORGAN**. Thank you. Mr. Christenson, thank you very much for staying around. We appreciate your testimony.

Mr. **CHRISTENSON**. Thank you.

Mr. **DORGAN**. Next, the Chair will call Nelson Denlinger, the executive vice president of the U.S. Wheat Associates, along with Raymond Hopkins, the chairman of the Department of Political Science, Swarthmore College.

If you would take your positions at the table, there is a vote on the floor of the House, so Mr. Faleomavaega will take the Chair while Mr. Gilman and I go vote. Might I ask Mr. Denlinger and Mr. Hopkins for you to summarize your presentations. A full copy of your statement will be made a part of the permanent record, and that statement has been made available to us on the committee prior to today's hearing.

So, Mr. Faleomavaega, if you would take over the Chair, Mr. Denlinger will begin his presentation and I will be back.

Mr. **FALEOMAVAEGA**. Thank you, Mr. Chairman. One of the oddities of the American system of government is I am one of the five nonvoting delegates to the U.S. House of Representatives. As such, I do not have the privilege of voting on the House Floor because the Federal Constitution says I cannot.

It has been an experience for me because many of the citizenry here in the United States have never heard of the American Samoa. We export probably more professional football players than any other jurisdiction in the United States. We export more Sumo wrestlers than any other jurisdiction in the United States, and we are the second largest tuna canning industry in the whole world. How do you like that for our claim to fame?

So, I am very happy to welcome Mr. Denlinger and Mr. Hopkins for their testimony as I am sure the members of the committee have already read their statements, and I am sure you can well anticipate some of the questions that they will be asking you. Please, gentlemen, welcome.

STATEMENT OF NELSON DENLINGER, EXECUTIVE VICE PRESIDENT, U.S. WHEAT ASSOCIATES

Mr. DENLINGER. Good morning, Mr. Chairman and members of the select committee. My name is Nelson Denlinger and I am the executive vice president of U.S. Wheat Associates.

My organization, U.S. Wheat Associates, is a cooperator group representing U.S. wheat producers, and its purpose is to promote the export of U.S. wheat around the world. We have 14 offices abroad and our focus is in helping develop markets for U.S. wheat by working with millers, bakers and the trade in over 100 countries around the world.

We are very much interested in helping overseas markets become familiar with U.S. wheat and encourage its use. Government programs such as Public Law 480 are extremely important as market development tools in promoting U.S. wheat exports.

My interest here today relates primarily to the Public Law 480 title I program. It is a credit program and a very concessional one. That is a very important point. Our organization is interested in seeing that the program be run as effectively as possible in order to maximize sales under it.

There has been a great deal of discussion in recent years regarding the expanding export market for wheat among developing countries. That market has been growing and it will continue to increase. The only question is: How will those needs be met and financed?

Public Law 480 title I meets only a small part of the developing country needs. There has been some discussion recently regarding the option of making Public Law 480 an all grant program. I would certainly not support such a change and I would not recommend scaling back title I in favor of title II.

The program already has a great deal of flexibility in its terms and increased concessionality can be provided to needy countries in emergencies or under special circumstances. The most generous credit terms under title I are 10 years' grace and repayment over 30 years which is very concessional.

Until last year, there was a pattern of late programming under title I. This became a concern of our and other organizations and we brought these concerns to the Department of Agriculture. In the case of many countries, Public Law 480 title I agreements would be signed late in the fiscal year and shipping would not take place until at the very end of the U.S. fiscal year.

We explained these problems to the Department of Agriculture and we indicated that people need to eat every day and that food aid recipients need more flexibility in timing their purchases. We also pointed out that flour mills need to be able to mill wheat on a regular basis and not just at certain periods of the year.

Now, we made some progress in getting that point through to the Department of Agriculture but we want to continue to work on that so that there is more flexibility in programming throughout the course of the fiscal year.

Our organization is interested in seeing that purchasers of U.S. wheat, whether under title I or some other program, are treated as customers and not welfare clients. In some quarters, Public Law 480 title I assistance is seen in total isolation from other food availabilities of that particular country.

In our view, it makes a great deal of difference whether you provide even a modest amount of food aid early or late in the fiscal year. I would go a step further and suggest that one of the problems why Public Law 480 has not expanded has been the cumbersome nature of the way it is handled.

Every year, there is a growing market for wheat and other commodities, but the size and effectiveness of the program is an important factor in how much the Public Law 480 will finance of that total need.

Other USDA credit programs have expanded more rapidly in recent years and I think one could make the case that part of the reason for that has been the sluggish nature of the Public Law 480 title I program.

USDA has been more interested in recent years—and that is part of the problem—with their commercial programs so that they have not provided the leadership that is needed. On the other hand, A.I.D. has seen its dollar budget go down and it has looked on Public Law 480 as an alternative resource.

Our organization brings many trade teams to the United States each year to acquaint them with the wheat market, the commodity markets, and how to buy intelligently. Some of these countries use Public Law 480. Some use other programs and others buy on the cash market.

We feel it is very important to help these countries to use the program more effectively and, of course, we would like to see the programs run more efficiently so that they can buy more intelligently. We do not have enough funding under title I or title II but we need to do the best with what we have got.

Our main recommendation would be to program earlier, as we have started to do, and to put USDA more clearly in charge of the title I program so that the interagency struggles do not strangle the program.

Mr. Chairman, that ends my summarized remarks.

[The prepared statement of Mr. Denlinger appears at the conclusion of the hearing, see p. 88.]

Mr. FALEOMAVAEGA. Thank you, Mr. Denlinger.

Mr. Hopkins.

STATEMENT OF RAYMOND HOPKINS, CHAIR, DEPARTMENT OF POLITICAL SCIENCE, SWARTHMORE COLLEGE

Mr. HOPKINS. I want to thank the committee for inviting me to testify before you today on the topic of restructuring food aid, time for a change.

After having looked at the issue of food aid in this country and overseas for a decade, it is a welcome opportunity for me to offer my suggestions and comments to the committee. The paper I am submitting for the record is entitled "Reforming Food Aid for the 1990s."

I would call attention to the word reform, because it is directed toward achieving either more efficiency, the kind of point that Mr. Denlinger was just making in terms of the goals that are sought in a program, or realizing that goals need to be changed for a program, or perhaps both.

In my paper, I think I make an argument that, indeed, both would be appropriate as a basis for reforming the Food Aid Program. Mr. Goldwaith in his earlier testimony, for example, listed the multiple objectives currently mandated by the legislation as if they represented what were the current interests of the United States and, therefore, should be retained as extant in the legislation.

My own view is that they are, in fact, anachronistic, and no longer represent the U.S. interests. Therefore, it would be appropriate to design from zero or from scratch, as we did to some extent in the early 1950's, a new Food Aid Program. One would come up with a quite different program than the current legislation mandates.

Let me just speak as to two reasons why I think reform is appropriate, list five prescriptions that I put forward in the paper and offer two conclusions.

The two reasons I think it is appropriate for reforming the Public Law 480 legislation, our Food Aid Program, is first because the United States has a very different role in the world political economy today than it did in the 1950's.

We are no longer as large a financial donor of assistance in the world; indeed, Japan now exceeds the United States in its donations of overseas development aid.

Second, the United States still is a very important leader, in fact, the key leader, in setting forth policies for the developed community, industrialized countries, toward those countries particularly in need of things like food in order to relieve problems of food insecurity.

The United States can no longer itself do it but it has more responsibility to be a leader in a moral sense and as an example of how things should be done to others. I think it is very important to us to take some leadership there in providing that example.

The second reason for change is that we now know a lot more about how food aid can be efficiently used to impact positively on economic development. I think we all agree in the long-run, to the extent efficient use extends to the economic development of Third World countries, it is in the U.S. interest, including the interest of agricultural exports of a particular commodity. Therefore, we should use that knowledge in redesigning and eliminating some of the barriers to efficient use of food aid.

Now, to the particular five recommendations which you will find on pages 23 and 24 of the paper in summary form. First, it seems to me, that our allocation formula should not take into account a wide range of multiple objectives that currently are legislated. Rather, we should have a primary or overriding objective and that is, allocating according to the needs of particular countries. Now, that does not mean we would eliminate not giving food aid to a state we considered an enemy. There would be no foreign policy considerations. But these would be an overriding concern applicable only where we had a strong foreign policy case.

Therefore, our goal would be to have long-term development, efficiently promoted through the years, with food. Thus, we would not, for example, see El Salvador get 10 times per capita the food aid of Bangladesh or 88 times per capita the food aid to Ethiopia last year.

The second recommendation is for Africa which is a very special case, and I spend some time discussing the African case and the lessons from it in my statement for the committee. A subminimum for Africa, perhaps of about a half-million tons, available for multiyear use, would be very, very important to give that kind of multiyear commitment that Secretary Freeman mentioned, in order to allow countries that are so vulnerable in Africa to move forward along the lines that have already been suggested, to move toward a self-reliant development strategy. Without this kind of a guarantee, I think they will have a much harder time achieving that.

Third, as Assistant Administrator Christenson proposed, serious consideration should be given to making this an all grant program. The United States is the only country that provides food aid on a concessional sales basis along with a grant program.

We act as if title I and title II was the normal way to give food aid but, in fact, the United States is very unique in this respect. If we are going to provide leadership for other countries around the world, if we expect that, as Mr. Denlinger was just mentioning, that the need for food and food imports is going to rise in the 1990's, who is going to pay for them?

Is Japan going to come into our country and be interested in providing food aid from the United States, if the United States is still using our Food Aid Program as principally a way to flog wheat or something else overseas to countries that are probably second or third in order in their priority of need?

I do not see where the Japanese would be elevated in either their moral or economic sights to follow our leadership or to buy food from us if that is the way we run our programs. So I would argue that it is time to move to an all grant program, not only time because of a need to be a leader in the world, but also because it is consistent with the objectives of the Brady plan and our general problem of relieving debt.

I think the State Department spokesman already mentioned the understanding of the State Department, that this would be appropriate. Let me just pause on this for a moment because clearly, the commodity groups might say: Oh, we oppose this. In fact, I'll bet they will.

They will oppose such a change, but if such a change were in place, would they vote against food aid legislation in the 150 account? Would Senators and Representatives from farm States say: Well, we're not interested in seeing earmarked commodities going out of this country under a foreign assistance bill? No, of course they won't.

They will support it and they will continue to support it, because it is in their interests and they see the importance of it. They, of course, would like to see more in terms of the amount that you can leverage and, clearly, title I allows you to leverage more tonnage out of the country.

The question is efficient delivery of that tonnage to people who need it, and I think that is why we should go to a grant program. I think a grant program won't break up the coalition of support that currently exists.

The fourth recommendation is to enhance policy coordination. I have already hinted at this. I think that we need to not just give lip service to this often cited recommendation in a number of studies, but we need to sit down with other donors of food aid and individual recipient countries and ask how can we really use this resource in an intelligent way over a number of years.

For example, could we have the Japanese put some U.S. food and some of their cash along with some of the U.S. food into a long-term commitment program that would work in countries to alleviate the food insecurity issues? I think we can.

I think there are a number of things that can be done, both by voluntary agencies and by direct government-to- government coordination that would work in this direction. I think if we are going to expand the total amount of food aid flow in the world, which I think the projections indicate would be appropriate, a good bit of the cost for that expansion may have to come out of budgets other than the U.S. Government budget because we are under severe budget constraints.

Finally, I suggest that we reduce earmarking, something I gather was echoed by USDA and virtually everyone who looks at the legislation. Not only reduce the earmarking, which I think ties the hands and is often counterproductive for administration of food aid, but I think we ought to move toward a philosophy—and I wish that Mr. Hall were here to talk about this; perhaps he will be back—in which monetization is the normal way in which food aid, transferred under a grant program, a title II type program, is used.

Then the proceeds of monetization are used for directed feeding purposes or development purposes which are particularly targeted on the needs that are appropriate for a food insecure country, whether it be reforestation projects or whatever.

The direct use of food be mandated only when, although we know it is going to be more costly, an emergency situation arises where that seems the best solution to meet the very pressing needs of a population that is very stressed.

In conclusion, I would like to point out that if one looked at the top 20 recipients of food aid in the world, not just the U.S. recipients, and looked at the U.S. food aid to those recipients, using some kind of very simple minded notion of what might be an indicator of needs, such as the extent to which their forested lands are deteriorating, which is very rapid in El Salvador, incidentally, or the extent to which they have been having very slow progress in expanding yield per acre, one would find that roughly 50 percent of U.S. food aid is already targeted on the basis of need.

This is only one-half, and we should be targeting all of it, and I think that is the big gap I would like to see us try to close. One-half suggests that we have moved a long way already and it is really a matter now for the legislation to catch up with the general progress that other countries have made and which our own agencies have made within the Government.

Second, I would like to suggest that there is a problem in the State Department person's statement earlier from my point of view that suggested that title II, that is, grant aid, might be more likely to create dependency than title I.

I do not see any evidence that I am aware of that would support that contention. It strikes me that certainly appropriately designed title II type intervention, particularly when targeted toward countries undergoing reform in their food sector and in their general economic environment, would, in fact, have just the opposite effect.

Most title I programs ignore those kinds of considerations, whereas, title II specifically takes those into account because of the very nature of the way it operates, at least in the government-to-government sector. Those are my comments.

Thank you for the opportunity to talk to you today.

[The prepared statement of Mr. Hopkins appears at the conclusion of the hearing, see p. 94.]

Mr. **Faleomavaega**. Thank you, Mr. Hopkins. I understand we have Mr. Charles Sykes here also with us. If you would like to join us at the panel and if he has a prepared statement to be submitted, it will be made part of the record.

Mr. **Sykes**. Thank you, Mr. Chairman. Our statement was already submitted and given by Secretary Freeman. I am here to answer any questions that might arise out of that statement.

Mr. **Faleomavaega**. Thank you very much. I do have a couple of questions for Mr. Denlinger. I seem to hear the consistency and the concerns.

On the one hand, we have the members of the administration justifying their inadequacy as far as the manpower and inability to meet the demands, whether it comes from the Congress or whether it comes from the communities or whether it comes from the private sector, there always seems to be that limitation.

I wanted to ask Mr. Denlinger if this has really been one of the problems that the people involved with the Public Law 480 program has not been to your satisfaction as far as the private sector is concerned. I sense that from your comments.

Mr. **Denlinger**. I think it is more a rivalry between different Government agencies rather than shortage of manpower. Our interest is in trying to see that programs are available to be used on a timely basis, not to have different agencies of Government have different viewpoints of what country *X* should do and how many hoops they should jump through before they can get a relatively modest amount of food.

My point was that a country needs to plan its food needs for an entire year. They learn our fiscal year better than we do in many cases, so some bureaucrat from A.I.D. thinks they should wait until the third quarter, until they jump through all these hoops. They are perhaps getting food aid from other countries, they have food production of their own, and so the food aid from the United States gets there in the last quarter when they are harvesting their own crop.

Of course, it depresses their prices. It does all sorts of things, but the bureaucrat says: Aha. They got their 10 or 15 million this year. It's wonderful. We can feel good.

Mr. **Faleomavaega**. I have learned from my senior colleagues that they always pose this question. I would like to ask Mr. Denlinger, from a scale of zero to 10, what would be your opinion or judgment on the effectiveness of A.I.D. and its implementation of the programs that it administers? Zero means absolute zero and 10 means most efficient or very effective.

On that scale, Mr. Denlinger, what is your judgment?

Mr. **Denlinger**. I can assure you it would not be 10.

Mr. **Faleomavaega**. Can I get a little more specific answer?

Mr. **Denlinger**. Below 5.

Mr. **Faleomavaega**. A low 5, OK. I think you hit it right on the nail, Mr. Denlinger, the fact that we have two basic factors that interplay so much in determining how are we to make these allocations.

We are talking about an agency that deals with our foreign policies and then you have the U.S. Department of Agriculture that deals not only with our domestic needs but also as it ties into our foreign policy considerations, so as you have those mixed together, you are going to end up with agencies squabbling among themselves as to which really is the better policy.

This is where the problem lies. Of course, the problem with us on the Hill is that the administration is constantly telling us: Hands off. We are the ones that make the foreign policies. So, I'd like to ask your opinion if perhaps the Congress has gone a little too far in being involved with these two agencies that are squabbling as to which is the better policy to implement a food aid program.

Mr. **Denlinger**. My problem with A.I.D. is that I think they are too isolated from other agencies. I think their frustration with the Congress results from the fact that Congress is frustrated with them, if that helps.

In other words, I think they have not delivered on the programs that they have laid out, so Congress has, in fact, tried to manage and involve themselves much more than A.I.D. would like. Every Government agency would like maximum flexibility.

Mr. **Faleomavaega**. On the same scale, Mr. Denlinger, and please, I welcome comments from Mr. Hopkins and Mr. Sykes. On the same scale, Mr. Denlinger, where do you think the Congress stands from zero to 10 as far as fulfilling its responsibilities and being more receptive to your concerns, as far as the private sector is concerned?

Mr. **Denlinger**. Six to 7.

Mr. **Faleomavaega**. So, it's a little better than downtown. All right. I feel a little encouraged by what you have said. Mr. Hopkins, any comments to the questions? You were commenting earlier about reform, but I am giving you the reality, so give us a better recommendation than the realities we are faced with.

Mr. HOPKINS. With respect to the scale?

Mr. FALEOMAVAEGA. A.I.D., USDA, bureaucratic bungling, bureaucratic mess that we are in and where Congress should come out to improve the lot based on some of the reforms that you suggested earlier, and also to meet the needs of our private sector.

Mr. HOPKINS. Two expectations exist. One is that A.I.D. might somehow be a popular Agency on the Hill.

Mr. FALEOMAVAEGA. Unpopular or popular?

Mr. HOPKINS. Popular. I cannot think of any strong reason why that would be true, since they give away money to other people.

Mr. FALEOMAVAEGA. I can assure you, being a member of the Foreign Affairs Committee, it is the most unpopular committee that I have ever experienced in my life.

Mr. HOPKINS. It does not surprise me, as a political scientist, at all.

Second, I think there is an expectation that when we do invest a great deal of resources in various countries overseas as administered by A.I.D., that good things should result. In fact, people may spend millions of dollars on cancer research and not get good results. They may take heroic efforts to save someone's life and they die, and you don't usually blame the doctor.

So, I think one of the problems is that with rather limited resources, increasingly limited compared to other countries, with very little capacity to really persuade foreign governments to change domestic policies that may be perverse for economic development, we oftentimes blame A.I.D. for failures that are, to a large extent, out of their control.

So, in a sense, we expect too much of them and, hence, rate them down. I think there is a degree of unfairness there. Along those lines, I would also argue that since the Department of Agriculture clearly does have a number of interests in the domestic arena that are very important to constituencies in the United States and, therefore, quite important to Congressmen, that it is able to mount greater support for its positions in advancing the legislative process.

I think the key question is to what extent the legislature has a long-term and global view of food aid as opposed to a very short-term and very market development, meaning markets this year, the next and the year after, kind of vision.

If those visions drive Congress, then I don't think there is going to be a great deal of support for the kind of recommendations that I have put forward, and I take that as an unfortunate fact of political life.

On the other hand, if we do see greater interest in economic cooperation, for example, if the economic summit meetings were to take up some of these issues of how do we help the Third World, then I think that kind of leadership from the executive branch would allow Congress to lift its own vision from these very intense interests that tend to dominate some of the legislation, and take a broader look and a fresh look at food aid.

In that light, it seems to me, the direction I am pointing to, obviously, since I made those prescriptions, is what I would recommend.

Mr. **Faleomavaega**. From a humanitarian point of view, Mr. Sykes, this being also one of the reasons that we give food away and compassion, love and——

Mr. **Sykes**. Yes, Mr. Chairman. I wanted to, if I could, get back to your earlier observation about that. On page 5, the concluding paragraph of the statement which we submitted for the record says, "CARE will continue to be an active partner and participant in food aid programs in the years ahead. Few, if any programs * * *"—and this is a quotation from a ranking official in the Department of Agriculture—"Few, if any, programs are as accountable to legislative directives and regulations as those food aid programs managed by NGO's." Perhaps it is time to make this program less process and more results oriented.

Toward this end, a joint review by A.I.D., USDA, and interested PVO's should be carried out with the aim of simplifying forms and streamlining procedures, with recommendations to be made within a definite timeframe.

I would also ask members or staff of this committee to be involved in that process of streamlining and simplification prior to the reauthorization hearing, so that through this process a number of recommendations we have made today could be put into place without new legislation.

I think we need more cooperation between the principals in this field. We need it very badly. I think this committee can be an active participant in that process. With respect to many of the efforts to create greater cooperation, I think this committee has played a strong role.

When you look at these problems from different levels of abstraction, they appear very different. The membership of this committee has made a point to travel to the Sudan, Ethiopia, and so on. They have seen the work that is being done there by the PVO's.

I think they have come back with different perceptions clearer than, say, other Members of Congress who may not always get out or may concentrate on a region which is not within the developing world.

There are only three dignified ways that people can acquire food and resolve the problem of hunger. Either they buy it, they grow it or they work for it. It is our primary mission to help people obtain food in one of these three ways.

We carry out projects to stimulate, through microenterprise, ways in which people can earn income to buy food. We design and implement Food for Work Programs in countries. The last thing that we like to do is to give food to people, so our concentration is on self-help. Monetization has helped us in this area, with a small percentage of the food being converted to cash, thereby stimulating activities which create rural infrastructure.

We need to do more of that because rural infrastructure creates multiplier effects by getting people in the agricultural areas to grow more food, create more jobs, and deal with their own self sufficiency. This helps us all to realize that goal set forth in the joint resolution of the House and the Senate about the right to food.

Mr. **Faleomavaega**. I welcome our distinguished chairman back to the panel. I have one more question for Mr. Sykes. It saddens me because I was basically born and raised in a Third World setting, if you will.

It seems that the reaction toward the United States, despite all the donations and all the aid and all the help that we give, we are the greatest donor country in the world in terms of catastrophes and help and no other country in the world gives more than we do, and yet, we are despised by these countries to whom we give in many instances.

Mr. Sykes, I watch television sometimes and you see appeals made: Donate. Give. I just wonder perhaps if these organizations that are organized to give to the needy throughout the world, if they can just kind of send a ledger sheet sometimes just to see what percentage really goes out directly to the needs of these people they are making appeals for, and which percentages goes for administrative costs.

I would think there is always that sense of distrust by the public to donate and then not knowing if out of the $100 that he donates, $90 goes to the pockets that are advertising and about 1 percent goes to the real needy.

I would like to clear the record, to give Mr. Sykes an opportunity just to show how tremendous an organization CARE has been over the years, and what kind of a program they carry throughout the world, so that at least I would have a better appreciation and understanding of what CARE has been doing over the years.

Mr. **Sykes**. I also grew up in a Third World setting, Northern Alabama and East Baltimore, so I understand your point of view completely.

Let me say first of all that with respect to the fundraising efforts of nongovernmental organizations, we are constantly leveraging funds. Our organization raises about $28 million a year in the United States and an additional $15 million from other donor countries: European countries, and two in the Pacific, viz, Australia and Japan. Six of those countries formerly received CARE food packages after World War II, and now they are donors.

We received substantial contributions from Band Aid, Live Aid, and Sport Aid. In addition we receive about $24 million from the developing country governments in local currency to support programs.

So, for every U.S. donor dollar, we leverage about $10 in resources delivered to beneficiaries. I could give you further details about our fundraising.

Clearly, when we talk about effective food aid programs, we need competent people; we need equipment; we need technical assistance. We need to put these resources together in the best possible equation to work with and gain the support of local groups and realize the multiplier effects.

Mr. **Faleomavaega**. Thank you, Mr. Sykes.

Mr. Chairman.

Mr. **Dorgan**. Mr. Sykes, let me say that the reputation of the PVO's is an extraordinary one. I think that the amount of food they get to people who are in need of food relative to the administrative costs is extraordinary.

That is at least one area where at town meetings and other gatherings where people ask about food aid and aren't some of these commodities wasted on docks and so on, I continually point out that particularly with respect to title II and the PVO's that deliver it, boy, there is just precious little problem and the delivery of precious commodity at very low administrative cost is an extraordinary record and an exemplary record.

Let me ask Mr. Denlinger one question. Let me say, Mr. Hopkins, I have read your testimony. It is very good testimony, as is Mr. Denlinger's. Because of a time problem, I am not going to be able to ask all the questions I intended, but I would like to ask Mr. Denlinger, in your presentation, you suggested that title I be administered by the USDA.

What, if any, changes would we see in title I if it were administered by USDA?

Mr. DENLINGER. I think you would basically be able to program earlier in the course of the year. In other words, some of the rivalry that goes on between some of the other agencies would be diminished. It does not mean there would not be some, but I think you would end up having the possibility for countries to buy on a more orderly basis throughout the year.

That does not mean everybody would buy their Public Law 480 allocation in the first quarter, but you would get away from the stampede of everybody having to buy in the final quarter, everybody seeking the same ships to ship their commodity in the final quarter, and many commodities arriving in the recipient country at the wrong time for their own harvest and for their own economy.

I am just saying this would provide better flexibility, but I am not saying that USDA should be given the authority and not be held accountable. I think one should clearly see how they use this responsibility. It does not mean other concerns, whether they are foreign policy, would be totally ignored, too, but I am just saying it should be done earlier.

Mr. DORGAN. Let me thank the witnesses this morning for their presentations. Mr. Hopkins, your presentation, particularly on the ideas of restructuring food aid and the historical description and the recommendations are very interesting and they will be very useful to this committee.

I apologize for the lack of time. I do especially thank you all for presenting the thoughtful papers to us for our use and our consideration of public policy as we move forward. With that, we will keep the record open in the event there may be some questions we would like to submit to you or in the event you would like to submit additional testimony.

I thank all of you for your participation. The hearing is adjourned.

[Whereupon, the hearing was adjourned at 12:45 p.m.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF HON. ENI F. H. FALEOMAVAEGA, THE CONGRESSIONAL DELEGATE FROM AMERICAN SAMOA

Mr. Chairman, it is my great privilege to participate in this hearing on an issue of such magnitude. It is unfortunate, however, that we must assemble to discuss how best to serve the less fortunate, yes, even the starving of the world. It is indeed unfortunate that they must exist in such circumstances. At first glance implementation of food aid programs would seem an easy task, we, the developed nations, have more than we need, and the United States must take the lead in providing for those who are truly in need.

Coming from a third world environment where subsistance agriculture has been a way of life for centuries, my perspective is perhaps a bit different from that of some of my colleagues. I have had the opportunity to observe the decrease in local agricultural production as importation of from foreign countries increases.

Since the implementation of Public Law 480, the world has changed dramatically, the number and strategies of donor nations has changed. Recipients in other parts of the world need assistance for different reasons. The common denominator is hungry people, and how best to meet their basic needs while helping their leaders achieve long term solutions to their particular problems and circumstances.

One of the issues facing us is how best to improve our food aid program and delivery systems. The existing, mandated multiple objectives: export market development, economic development, humanitarian relief, and furtherance of foreign policy goals, make our task even more difficult.

In addition, we must consider how our actions will affect those we attempt to assist. Research has indicated that some of the programs have been less than successful, especially in areas of agricultural and economic development.

We are here today to hear several views on how best to meet the food aid challenge in the years to come.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF PHILIP L. CHRISTENSON, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I VERY MUCH APPRECIATE YOUR INVITATION TO APPEAR BEFORE YOU TO DISCUSS THE PL-480 PROGRAM AND A POSSIBLE NEED FOR REVISION IN THAT PROGRAM. YOUR HEARING TITLE ASKS THE QUESTION, "RESTRUCTURING FOOD AID: TIME FOR A CHANGE?". WE ARE ASKING OURSELVES THE VERY SAME QUESTION.

RECENTLY THE EXECUTIVE BRANCH AGENCIES INVOLVED IN THE PL-480 PROGRAM AGREED TO UNDERTAKE A COMPREHENSIVE REVIEW OF OUR POLICIES AND PROCEDURES FOR THE PL-480 AND OTHER FOOD AID PROGRAMS. I NEED TO EMPHASIZE THAT THIS PROCESS HAS ONLY JUST BEGUN. I HAVE ADOPTED A POLICY INTENDED TO PROMOTE CREATIVE THINKING ABOUT FOOD AID, AND WE ENCOURAGE THOSE INTERESTED IN FOOD AID TO COME FORTH WITH ALL IDEAS FOR CHANGES IN THE PROGRAM. I MUST CAUTION THAT IT WOULD BE A MISREADING OF THE PROCESS TO ASSUME THAT THE IDEAS WE ARE STUDYING ARE SETTLED POLICY DIRECTIONS WHICH ONLY AWAIT IMPLEMENTATION. WE ARE NO FURTHER IN THIS PROCESS THAN TO BE OPEN AND WILLING TO ASK

OURSELVES "WHAT WOULD HAPPEN IF WE DID SUCH AND SUCH?"

I BELIEVE IT BEST FOR US TODAY TO DESCRIBE SOME OF THE QUESTIONS WE ARE ASKING AND TO GIVE YOU SOME BACKGROUND BEHIND THOSE QUESTIONS.

SINCE THE PL-480 LEGISLATION WAS ENACTED IN 1954, MUCH HAS CHANGED AND THE PROGRAM NOW OPERATES IN AN ENVIRONMENT QUITE DIFFERENT FROM THAT WHICH PREVAILED DURING ITS EARLY YEARS. THIS ITSELF IS REASON TO JUSTIFY A COMPREHENSIVE REVIEW OF THE PROGRAM. TODAY, AMERICA'S FOREIGN AID PROGRAM IS FOCUSSED ON A VERY DIFFERENT SET OF COUNTRIES THAN 35 YEARS AGO. WE NOW CONCENTRATE OUR DEVELOPMENT EFFORTS IN NATIONS WHICH WERE COLONIAL TERRITORIES IN 1954, AND OUR AID RELATIONSHIP WITH THEM WAS NON-EXISTENT.

THERE HAS ALSO BEEN A CONSIDERABLE SHIFT IN THE NATURE OF U.S. GOVERNMENT AGRICULTURAL TRADE PROMOTION ACTIVITIES SINCE PL-480 WAS ENACTED. THERE ARE NEW PROGRAMS, SUCH AS THE EXPORT ENHANCEMENT PROGRAM, THE TARGETED EXPORT ASSISTANCE PROGRAM, AND

THE GREATLY EXPANDED GSM PROGRAMS THAT HAVE REDUCED PL-480 TO A RELATIVELY MINOR ROLE IN THE OVERALL AGRICULTURAL TRADE PROMOTION SCENE. IN THE 1950'S AND 1960'S, PL-480 ACCOUNTED FOR ONE-FOURTH OF ALL U.S. AGRICULTURAL EXPORTS; TODAY, IT ACCOUNTS FOR ONLY 3 TO 5 PERCENT.

WHILE THERE HAS BEEN A MAJOR EXPANSION OF U.S. AGRICULTURAL TRADE PROMOTION ACTIVITIES THROUGH THE CREATION OF THE EEP, GSM AND TEA PROGRAMS, THERE HAS ALSO BEEN AN EXPANSION IN OUR FOOD AID PROGRAM TO INCLUDE MUCH MORE THAN PL-480. THE LATE SENATOR ED ZORINSKY OF NEBRASKA SUCCESSFULLY SPONSORED LEGISLATION WHICH DIRECTS THE PRESIDENT TO ALLOCATE AT LEAST 15 PERCENT OF THE ESF-FUNDED COMMODITY IMPORT PROGRAM FOR THE PURCHASE OF AMERICAN AGRICULTURAL COMMODITIES. IN SOME COUNTRIES, THE CIP-FUNDED FOOD AID PROGRAM IS ALMOST AS LARGE AS THE PL-480-FUNDED FOOD AID PROGRAM.

THE CONCEPT OF FOREIGN AID WAS NOT WELL ESTABLISHED IN THE 1950'S, AND WAS PRINCIPALLY BASED ON EXTENDING LONG-TERM

CONCESSIONAL INTEREST RATE LOANS TO FOREIGN GOVERNMENTS. THE PL-480 PROGRAM, AS CONCEIVED IN THE 1950'S WAS MERELY ONE AMONG MANY SUCH LOAN PROGRAMS. TODAY, OUR ECONOMIC AND SECURITY ASSISTANCE PROGRAMS ARE LARGELY GRANT PROGRAMS -- EXCEPT FOR PL-480 TITLE I.

THE DEBT BURDENS OF THE PL-480 TARGET COUNTRIES IN THE 1950'S AND 1960'S WERE OF MANAGEABLE PROPORTIONS. CONCESSIONAL LOANS TO DEVELOPING COUNTRY GOVERNMENTS WERE CONSIDERED HIGHLY SECURE. TODAY, MANY DEVELOPING COUNTRIES HAVE DEBT BURDENS THAT ARE IMPEDING THE DEVELOPMENT OF THOSE COUNTRIES. ONE MUST WONDER WHY OUR PRESENT FOOD AID STRUCTURE ENCOURAGES FOREIGN COUNTRIES TO ADD TO THEIR DEBT BURDEN AND WHETHER THOSE DEBTS CAN BE SERVICED IN THE FUTURE. AS A COMPARISON, A.I.D. HAS SHIFTED ITS FINANCING TERMS TO ALL-GRANT ASSISTANCE FOR LONG-TERM DEVELOPMENT PROJECTS.

IN ADDITION, IN THE 1980'S AS SURPLUSES BEGAN TO BUILD AS A RESULT OF PRICE SUPPORT OPERATIONS, CONGRESS AMENDED THE

AGRICULTURAL ACT OF 1949 TO ALLOW "SECTION 416" FOOD DONATIONS ABROAD - DONATIONS WHICH WERE IN ADDITION TO PL-480. THE OBJECTIVE OF THIS ADDITIONAL FOOD AID PROGRAM WAS -- AND REMAINS -- PRIMARILY SURPLUS DISPOSAL. IN FY 1988 OVER 2 MILLION TONS OF COMMODITIES WERE EXPORTED UNDER THIS PROGRAM.

ALL THESE CHANGES IN THE EXTERNAL ENVIRONMENT IN WHICH WE OPERATE HAVE LED US TO THE CONCLUSION THAT A THOROUGH REVIEW IS NEEDED.

THERE IS AN ADDITIONAL FACTOR THAT SHOULD BE MENTIONED, AND THAT IS AN INTERNAL ONE. A.I.D.'S DIRECT-HIRE PERSONNEL LEVEL HAS DECLINED SIGNIFICANTLY OVER THE YEARS, FALLING FROM A PEAK OF 16,290 IN 1969 TO 4,765 TODAY. WE SIMPLY HAVE TO FIND MORE COST-EFFECTIVE AND MANPOWER CONSERVING WAYS OF DOING OUR BUSINESS. OUR INSPECTOR GENERAL, HERBERT BECKINGTON, HAS ALREADY EXPRESSED TO CONGRESS IN HIS REPORTS HIS CONCERN THAT A.I.D. IS AN OVERSTRESSED AGENCY WHICH SIMPLY CANNOT MEET ALL THE EXPECTATIONS AND REQUIREMENTS LEVIED UPON IT. OUR

RESPONSIBILITIES FOR MONITORING FOOD AID ADD SUBSTANTIALLY TO WORK LOADS OF OUR OVERSEAS MISSIONS WITH FOOD PROGRAMS.

SINCE I AM APPEARING BEFORE THE SELECT COMMITTEE ON HUNGER, LET ME START BY DISCUSSING SOME OF THE ISSUES WE ARE CONSIDERING WITH REGARD TO OUR HUNGER AND EMERGENCY FEEDING PROGRAMS.

THE MOST SALIENT FEATURE OF THE FOOD AID PROGRAM IN THIS DECADE IS THE OUTSTANDING WORK DONE BY THE UNITED STATES GOVERNMENT AND THE PVO COMMUNITY IN SAVING LIVES UNDER THE MOST DIFFICULT OF CIRCUMSTANCES IN REMOTE REGIONS OF AFRICA. THE AMERICAN RESPONSE TO THE FAMINE SITUATION IN ETHIOPIA, SUDAN AND ELSEWHERE IN AFRICA OVER THE PAST FIVE YEARS IS SOMETHING OF WHICH WE CAN ALL BE PROUD.

DESPITE THE HEROIC EFFORTS OF ALL INVOLVED, I DO NOT BELIEVE WE CAN BE CONTENT WITH OUR EFFORTS OR FAIL TO SEARCH FOR BETTER SOLUTIONS.

I AM SURE THAT YOU WILL AGREE WITH ME THAT THE FACT THAT OVER A MILLION PEOPLE DIED IN THE PAST DECADE FROM STARVATION IN

AFRICA IS A COMPELLING REASON TO UNDERTAKE A COMPREHENSIVE REVIEW OF OUR EFFORTS IN THIS AREA.

EMERGENCY FEEDING PROGRAMS ARE MORE DIFFICULT TODAY THAN EVER BEFORE. EMERGENCIES INVOLVING CROP FAILURES IN AN OTHERWISE FUNCTIONING COUNTRY, SUCH AS WE HAD IN THE PAST, ARE RELATIVELY EASY TO MANAGE COMPARED TO THE FAMINE SITUATIONS THAT NOW CONFRONT US. ALL TOO MANY PEOPLE ARE DYING IN FAMINES PRIMARILY CAUSED BY THE CIVIL WARS BEING CARRIED OUT IN SOME OF THE REMOTEST REGIONS OF THE GLOBE.

I DO NOT HAVE ANSWERS FOR YOU TODAY, BUT IT DOES SEEM TO ME THAT THE EMERGENCY FOOD AID PROGRAMS WE HAVE CARRIED OUT IN THIS DECADE -- IN ETHIOPIA, SUDAN, MOZAMBIQUE AND SO FORTH -- REQUIRE A DIFFERENT STRATEGY THAN THOSE OF EARLIER YEARS. ONE AREA I HAVE ASKED MY STAFF TO EXPLORE IS THE SPECIFIC FOODSTUFFS WE BUY FOR THESE EMERGENCIES. IF TRANSPORTATION CONSTRAINTS PREVENT US FROM SHIPPING MORE THAN A LIMITED TONNAGE OF FOOD INTO THE FAMINE AREAS, SHOULD WE SEE IF WE CAN GET THE HIGHEST NUMBER OF

CALORIES PER POUND INTO THE PRODUCTS WE ARE SHIPPING AT GREAT EXPENSE? WE HAVE BEGUN TO EXPLORE WHETHER CALORIC DENSITY IS NOT A BETTER CRITERION FOR OUR EMERGENCY FOOD RATIONS THAN SOME OF THE OTHER CRITERIA THAT WE HAVE APPLIED IN THE PAST.

WE NEED TO WORK WITH OUR PVO PARTNERS TO SEE WHETHER CHANGES ARE NEEDED IN A.I.D. POLICIES OR PROCEDURES TO TAKE INTO ACCOUNT THE VERY DIFFERENT CHALLENGES WE MUST MEET IN ORDER TO TARGET ASSISTANCE TO FEED THE VICTIMS OF THESE WARS.

THE PVOS THAT ARE INVOLVED IN THE DISTRIBUTION OF OUR HUMANITARIAN FOOD COMMODITIES SEEM TO BE QUESTIONING ALSO WHETHER TO CONTINUE THEIR CURRENT ACTIVITY AND THERE HAS BEEN A TENDENCY TO MOVE AWAY FROM RELIEF ACTIVITIES TOWARD SO-CALLED DEVELOPMENTAL ACTIVITIES. THE LEVELS OF NON-EMERGENCY CATHOLIC SERVICES, FOR EXAMPLE, HAS DECLINED SIGNIFICANTLY IN RECENT YEARS. OUR REEVALUATION OF THE FOOD AID PROGRAMS NEEDS TO EXAMINE CAREFULLY WHERE AND HOW HUMANITARIAN FOOD AID FITS INTO TODAY'S AID PORTFOLIO AND METHODS FOR ENCOURAGING PVOS TO

MAINTAIN A PROPER LEVEL OF ACTIVITY IN THIS FIELD.

ANOTHER ASPECT OF THE HUMANITARIAN FOOD AID PROGRAM THAT WE PLAN TO STUDY IS WHETHER WE SHOULD HAVE A MINIMUM PROJECT SIZE, BELOW WHICH SOME ALTERNATIVE FORM OF FOOD ASSISTANCE SHOULD BE EMPLOYED. AS I MENTIONED EARLIER, THE REDUCTION IN STAFFING THROUGHOUT OUR AGENCY PLACES A PREMIUM ON FINDING APPROPRIATE ECONOMIES OF SCALE FOR OUR ACTIVITIES. THERE MAY BE ACTIVITIES FOR WHICH IT WOULD BE A LOT CHEAPER -- BOTH IN TERMS OF DOLLAR OUTLAYS AND IN TERMS OF PROJECT MANAGEMENT OVERHEAD EXPENSES -- TO PROVIDE DIRECT CASH GRANTS TO HUMANITARIAN OPERATIONS, POSSIBLY GENERATED BY THE MONETIZATION OF GRANT FOOD AID IN OTHER PARTS OF THE SAME ECONOMY. TO SOME EXTENT, THE SWAP ARRANGEMENTS THAT WE NEGOTIATE WITH FOREIGN GOVERNMENTS AND PARASTATALS ARE HEADING IN THAT DIRECTION.

FROM A TRADE PROMOTION POINT OF VIEW, MUCH HAS ALSO CHANGED. AT ONE TIME, PL-480 ACCOUNTED FOR ABOUT ONE-FOURTH OF TOTAL U.S. AGRICULTURAL EXPORTS AND THE PROGRAM WAS THE MAJOR

VEHICLE FOR THE PROMOTION OF THOSE EXPORTS. IN THIS DECADE, PL-480 ACCOUNTS FOR ONLY 3 TO 5 PERCENT OF AGRICULTURAL EXPORTS AND ITS ROLE AS A PRINCIPAL EXPORT PROMOTION PROGRAM FOR AGRICULTURE HAS BEEN SUPPLANTED BY OTHER AGRICULTURAL EXPORT PROMOTION PROGRAMS. WE NEED TO LOOK AT THE RELATIONSHIP BETWEEN THE PL-480 PROGRAM AND THE NEWER EXPORT PROMOTION ACTIVITIES AND CONSIDER WHETHER WE SHOULD ADJUST PL-480 PROGRAMS TO TAKE INTO CONSIDERATION THE EXISTENCE OF THESE OTHER, COMPETING PROGRAMS.

ONE IMPORTANT AREA THAT WE BELIEVE NEEDS TO BE EXAMINED IS OUR CURRENT TITLE I PROGRAM, WHICH IS BASED ON LONG-TERM, CONCESSIONAL INTEREST RATE LOANS TO SUPPORT THE SALE OF AGRICULTURAL COMMODITIES TO A FOREIGN GOVERNMENT. WE WANT TO EXPLORE WHETHER SUCH LONG-TERM, CONCESSIONAL INTEREST RATE LOANS FOR THE PURCHASE OF A CONSUMMABLE PRODUCT ARE IN THE BEST INTEREST OF THE BORROWING COUNTRY AND TO EXPLORE THE IMPACT OF THIS PROGRAM ON OUR OTHER ECONOMIC POLICY GOALS FOR THE DEVELOPING COUNTRIES.

FIRST, MANY OF THE COUNTRIES TO WHICH WE EXTEND TITLE I LOANS ARE ALREADY HEAVILY BURDENED WITH DEBT AND REPEATEDLY FORCED TO RESCHEDULE THEIR OFFICIAL AND PRIVATE DEBT PAYMENTS. WE ARE ASKING OURSELVES WHETHER IT MAKES SENSE TO INCREASE THE DEBT BURDEN OF THESE ALREADY OVER-EXTENDED COUNTRIES IN ORDER TO FINANCE THE IMPORTATION OF A CONSUMMABLE.

SECOND, WE WANT TO EXPLORE THE IMPACT OF THESE LONG-TERM, CONCESSIONAL INTEREST RATE LOANS ON OUR DEVELOPMENT POLICY OBJECTIVE OF DECREASING THE ROLE OF GOVERNMENT AGENCIES OR PARASTATAL CORPORATIONS IN THE ECONOMIES OF THESE COUNTRIES. IS THE TITLE I PROGRAM UNDERCUTING OUR PRIVATIZATION EFFORTS BY FOSTERING THE NEED OR PERCEIVED NEED FOR A GOVERNMENTAL FOOD AUTHORITY OR STATE CORPORATION TO ACT AS THE INTERMEDIARY FOR THE IMPORTATION AND DISTRIBUTION OF PL-480 AND OTHER FOOD AID SHIPMENTS? AS A GENERAL RULE, WE BELIEVE THAT OUR OWN PROGRAM SHOULD BE STRUCTURED TO SUPPORT OUR ECONOMIC DEVELOPMENT POLICIES. SHOULD THE PROGRAM BE RESTRUCTURED TO MORE

EFFECTIVELY PROMOTE PRIVATE SECTOR INVOLVEMENT IN DEVELOPING COUNTRIES' FOOD IMPORT AND DISTRIBUTION SYSTEMS?

THIRD, THE CONCESSIONAL LOAN PROGRAM CREATES CERTAIN VERY SERIOUS DIFFICULTIES FOR US IN THE IMPORTANT FIELD OF AUTHORITY OVER, AND ACCOUNTABILITY FOR THE PROCEEDS GENERATED BY THE SALE OF PL-480 TITLE I COMMODITY IMPORTS?

IN REVIEWING THIS ISSUE, IT IS IMPORTANT TO NOTE THAT THE TYPE OF ACTIVITY SUPPORTED BY TITLE I LOANS IS ALSO CONDUCTED UNDER OTHER PROGRAMS. COMMODITY IMPORT PROGRAMS FUNDED THROUGH THE ECONOMIC SUPPORT FUND APPROPRIATIONS ARE ALSO USED TO IMPORT U.S. ORIGIN AGRICULTURAL COMMODITIES, UNDER THE PROVISIONS OF THE ZORINSKY AMENDMENT PASSED BY CONGRESS IN 1981. WHAT WE NEED TO DO IS COMPARE OUR EXPERIENCES WITH PL-480 TITLE I ACTIVITIES TO OUR EXPERIENCES WITH THE CIP TO SEE IF CHANGES ARE DESIRABLE.

TWO INTERESTING ASPECTS OF THE CIP-FUNDED FOOD AID PROGRAM ARE THAT IT ALLOWS A GREATER RANGE OF HIGH VALUE, PROCESSED PRODUCTS TO PARTICIPATE IN THE PROGRAM AND ALLOWS A MUCH GREATER

DIRECT ROLE FOR THE AMERICAN AGRICULTURAL EXPORTER.

WE IN A.I.D. FULLY SUPPORT ALL THE LEGISLATED OBJECTIVES OF THE PL-480 PROGRAM. WE BELIEVE THAT WE CAN MAKE THIS PROGRAM MORE EFFECTIVE IN MEETING ALL THESE MANDATES IF WE ARE WILLING TO EXPLORE NEW METHODS OF ACHIEVING THEM.

MARKET DEVELOPMENT IS AN IMPORTANT ELEMENT OF THE PL-480 PROGRAM, AND HAS THE FULL SUPPORT OF THE EXECUTIVE BRANCH AGENCIES INVOLVED. HOW THIS PROGRAM CAN BE IMPROVED TO ENHANCE ITS EFFECTIVENESS AS A MARKET DEVELOPMENT TOOL IS SOMETHING THAT SHOULD BE EXAMINED CAREFULLY. WITH SECTION 416 CARRYING THE PRINCIPAL BRUNT OF THE SURPLUS DISPOSAL EFFORT, SHOULD PL-480 MOVE AWAY FROM ITS CURRENT SURPLUS DISPOSAL FOCUS TOWARD AN INVOLVEMENT WITH NON-SURPLUS AGRICULTURAL PRODUCTS FOR WHICH THERE MAY BE AN UNEXPLOITED MARKET DEVELOPMENT POTENTIAL?

ANOTHER FACTOR THAT NEEDS TO BE EXAMINED IS THE POSSIBILITY OF MULTI-YEAR COMMITMENTS FOR ALL FOOD AID. AS I MENTIONED EARLIER, THE STAFFING CONSTRAINTS FACED BY ALL EXECUTIVE BRANCH

AGENCY MANAGERS REQUIRE THAT WE LOOK FOR WAYS TO CARRY OUT OUR BUSINESS WITH LESS MANPOWER. ONE OBVIOUS PROCEDURE FOR REDUCING PAPERWORK WITHIN THE AGENCY WOULD BE TO HAVE THE SAME NEGOTIATIONS AND AGREEMENTS COVER A LONGER PERIOD OF TIME.

FINALLY, MR. CHAIRMAN, I WANT TO REPEAT MY EARLIER EMPHASIS ON THE FACT THAT WE ARE ONLY AT THE INITIAL STAGES OF THIS REVIEW PROCESS AND HAVE COMMITTED OURSELVES TO BEING OPEN TO NEW IDEAS. I BELIEVE THAT CONGRESS CAN BE AND OFTEN IS THE CREATIVE, INNOVATIVE ELEMENT IN OUR FEDERAL GOVERNMENT. I ASSURE YOU OF A FIRM COMMITMENT ON OUR PART TO WORK TOGETHER -- ON BOTH A FORMAL AND INFORMAL BASIS -- WITH OUR AUTHORIZING COMMITTEES AND OTHER INTERESTED MEMBERS OF THE CONGRESS ON THESE AND OTHER ISSUES CONCERNING THE IMPLEMENTATION OF OUR FOOD AID PROGRAMS.

Prepared Statement of Christopher E. Goldthwait, Acting General Sales Manager and Associate Administrator, Foreign Agricultural Service, U.S. Department of Agriculture

Mr. Chairman, members of the committee, I appreciate the opportunity to discuss your topic this morning, "Restructuring Food Aid: Time for a Change?". We in the Department of Agriculture share your belief that consideration of ways to improve our food aid programs is timely.

Background

To help set the stage for our discussion, I will briefly outline the U.S. Government food aid programs. First and foremost of these is Public Law 480, 83rd Congress (P.L. 480) or the Food for Peace program authorized by the Agricultural Trade Development and Assistance Act of 1954. This authority is composed of three program titles and one general administrative title, with a preamble that identifies the following objectives:

-- to expand trade,

-- to develop and expand export markets of U.S. agricultural commodities,

-- to . . . combat hunger and malnutrition,

-- to encourage economic development . . .,

-- . . . to foster and encourage the development of private enterprise,

-- to enhance food security . . .,

-- and to promote in other ways the foreign policy of the United States.

This list has grown over the years, especially with more recent legislation.

Title I authorizes the financing by Commodity Credit Corporation (CCC) of sales of U.S. agricultural commodities, primarily through concessional financing, to friendly countries.

Title II authorizes donations of U.S. agricultural commodities to benefit needy people; these donations can be made through private voluntary organizations and international organizations, as well as through bilateral agreements.

Title III authorizes Food for Development programs, which allow the forgiveness of Title I financing in exchange for various agricultural and rural development activities. Title III also includes barter authority.

Title IV primarily addresses administrative matters such as commodity availability and reporting to Congress, it does include one program authorization. The purpose of this program is to assist friendly developing countries to become self-sufficient in food production.

As is readily apparent from the listing of the legally mandated goals of this program, P.L. 480 has become complicated and responds to or affects many interests, from feeding the hungry to supporting the U.S. maritime fleet. The complexity of the legislation, which has had amendments layered on top of amendments, leads most of us in the food aid community to support considerations of ways to simplify and streamline the Act. This is a task the Executive Branch is also considering.

In addition to the P.L. 480 program, agricultural commodities are furnished under Section 416(b) of the Agriculture Act of 1949 for carrying out foreign assistance programs under Title II of P.L. 480. This program, unlike P.L. 480, is supported only by Commodity Credit Corporation (CCC) owned commodities, and only by CCC stocks that are excess to other legally required uses, such as supporting domestic feeding programs.

Current Situation

As you requested, I would like to briefly comment on the Department's view of Title I. However, first I would like to iterate our long-standing support for the humanitarian goal of P.L. 480, carried out through Title's I, II and III of the program.

The Department of Agriculture views Title I primarily as a market development tool. We believe that the objectives of food assistance and market development are largely compatible. In an ideal world, market development is a long-term endeavor that begins with long-term credit financing for countries, then moves to our commercial credit guarantee programs and finally, to full commercial transactions.

In the early years, use of P.L. 480 to support the market development goals was of major importance. Over the years, other goals have become more important. At present, with the wide array of programs and goals, including many resulting from the Food Security Act of 1985, we see a need to use P.L. 480 more effectively to support agricultural market development.

I would also like to touch on one of the major responsibilities of the Department in P.L. 480 program administration. The Secretary has responsibility to determine which U.S. agricultural commodities will be available for financing or donation under P.L. 480 during each fiscal year. He carries out this task under the authority of Section 401.

As Committee members are aware, this year we will carefully review the commodity supply situation, especially for wheat. Last year, we did obtain Presidential authorization to use up to 1.5 million tons of wheat from the Food Security Wheat Reserve for programming through P.L. 480 during fiscal year 1989. I would expect that this year we may again have to consider requesting a Presidential Determination to use the Reserve. While it is early in the crop year, we do not at this time expect unusual situations for any of the other commodities we use in the program.

The Department has the operational responsibility for implementing the Title I program and for assisting AID in implementing the Title II program. In addition, AID acts as the agent for CCC in carrying out donation of commodities under Section 416 programming; therefore, we share operational responsibility for this program. And cargo preference applies to all food assistance.

While these operational functions often seem to receive less attention, then other aspects of food aid, by the general public, they are vital to the success of any of the goals of food aid.

Let me now discuss your questions on the appropriateness of using food aid for balance of payments support. We do not generally view Title I programs as designed specifically to provide balance of payments support, although we recognize they have this affect. We do not necessarily see the resulting balance of payments support that may flow from Title I as inappropriate but we do not see it as a primary goal of the program. As I noted, we continue our support for the humanitarian goal of the program, while at the same time supporting productive market development activities with the program.

1990 Farm Bill

Let me conclude by noting that the several agencies involved in U.S. food aid programs are actively involved in discussion of possible changes to P.L. 480 in the next Farm Bill. While we are at the beginning of this process, I am confident we will seek ways to streamline the program and lessen its complexity. For example, some provisions such as the multiple mandates in Title II, the compliance provisions of Title III, and the unused authorities such as sections 107 and 114, are clearly areas for review.

It is hard for any program to be all things to all people. I think most of the Executive Branch feels P.L. 480 may be "over mandated" and "over earmarked". Many provisions have been unused for many years; some are no longer relevant. Conflicting directions appear to exist in various parts of the Act. The time to consider these as well as other aspects does seem right. We in the Executive Branch look forward to undertaking this endeavor with Congress.

PREPARED STATEMENT OF CRESENCIO ARCOS, DEPUTY ASSISTANT SECRETARY, BUREAU OF INTER-AMERICAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman:

I am pleased to have the opportunity today to discuss our policy towards Central America, the area of policy that I oversee in the State Department Bureau of Inter-American Affairs, and in that context to discuss food aid.

The Political Context

Central America has been for the last decade beset by political, social and economic upheaval. These travails have had a major impact on the region's economies and, despite important peace initiatives, political extremism, terrorism, and armed conflicts persist. Although United States military aid to the Nicaraguan Resistance ended more than 16 months ago, the Soviet Bloc and Cuba have continued a high level of military aid that facilitates Sandinista repression at home and subversion in the region.

With our continuing support, democratic institutions have begun to take root in Central America. But these fragile institutions are being strained by economic crises. The transition from authoritarian to democratic rule has generated heightened expectations for improved economic and political conditions. The challenges from insurgents in Guatemala and El Salvador and the consolidation of a Marxist regime in Nicaragua pose threats to the evolution of democratic institutions in Guatemala, El Salvador, and Honduras and to long-standing democratic traditions in Costa Rica.

Support for human rights and the development and preservation of freedom and fundamental liberties in Central America has been the consistent goal of the U.S. government. Since the Bush Administration took office in January, we have embarked on a new effort to to ensure, through diplomacy, that these democratic goals become reality, not just in those countries that have enjoyed a return to constitutional democracy, but also in Nicaragua. We have no hidden agenda: we want democracy for all of the countries on the Central American isthmus.

The basic considerations underlying our assistance policy toward the region were formulated in 1983-84 by the National Bipartisan Commission on Central America (the Kissinger Commission). The Commission's focus on democratization, human rights, economic stabilization, structural transformation and expansion of the benefits of economic growth remain at the center of our policy.

In pursuit of our objectives, food assistance has been an important policy tool. An adequate supply of foodstuffs is an essential humanitarian need that crosses all socio-economic boundaries and is a basic determinant of economic and political stability. In accordance with P.L. 480 legislation, our food assistance program supports both strategic and humanitarian interests in providing sustenance, while supporting economic stabilization in order to achieve economic and political reforms that will enable the countries in the region to become capable of providing for the basic needs of their people.

With food aid, we are working to remove the twin spectres of hunger and conflict, both of which dim the chances for lasting peace and democracy in Central America.

Economic Crisis and Decline

In the late 1970s, Central America entered a period of upheaval. Nicaraguans ousted the dictator Somoza, and guerrilla insurgencies began in El Salvador and became more active in Guatemala. At the same time, the bubble of economic growth that the region had enjoyed in the 1960s and most of the 1970s burst with a vengeance. While populations grew, the economies of all five Central American countries contracted dramatically so that by 1983 per capita income had declined by 10 to 30% since 1979 in each of the countries. These figures translated into a sharp increase in human misery.

The causes of the economic depression were many and included high oil prices, prolonged world recession, a decline in Central America's terms of trade, and the increase in interest rates in lending countries. Political unrest, guerrilla insurgencies, and economic mismanagement by the Central American governments were also major factors in the decline.

The U.S. Response

In light of these developments, increased aid, including food aid, became an important component of U.S. policy for Central America. To deal with the continuing crisis, President Reagan formed the National Bipartisan Commission on Central America, chaired by Henry Kissinger, to study the situation in Central America and to recommend solutions. The Commission's report, issued in January 1984, has been a foundation for U.S. policy in the region ever since. The Commission recommended that the U.S. strive to achieve five main objectives in Central America:

1) strengthening democratic institutions and processes to enhance participation in the political process;

2) stopping economic decline and achieving economic stabilization;

3) establishing the basis for for sustained long-term economic transformation and growth through policy reforms and through diversification of exports;

4) spreading the benefits of economic growth; and

5) improving the defensive capabilities of the region's democracies.

To carry out the recommendations of the Kissinger Commission, President Reagan launched his Central America Initiative in February 1984, calling for six billion dollars in U.S. economic assistance between 1985 and 1989. The Congress adopted the Report of the Commission in the form of the Central American Initiative, supporting the President's program for increased assistance to the region in all forms -- including food aid. Since then, U.S. economic aid to the region has been substantial although, because of budgetary constraints, it has fallen short of the level requested in the Central America Initiative. From FY1985 through FY1988, direct bilateral economic assistance from the U.S. to Central America has totalled some three and one-half billion dollars, (which included over $800 million of P.L. 480 food aid,) and we have provided another $720 million in military aid.

Underlying U.S. assistance including food aid to Central America has been the assumption that no amount of aid can lead to sustained development unless the Central Americans themselves implement the right set of economic policies. Food assistance has been complementary to aid provided through Economic Support Funds (ESF) and Development Assistance-funded projects. By right policies, we mean policies that, in accordance with P.L. 480, encourage economic development, i.e. policies that rely on free markets, that maintain realistic exchange rates, that limit the role of the state in the economy, that allow small entrepreneurs to flourish, that limit government deficits, that lead to reduced inflation, and that result in increased exports rather than reduced imports.

In addition to direct bilateral aid, the U.S. has created other programs to help Central American recovery. The Caribbean Basin Initiative (CBI), proposed in 1982 and established in 1984, and related legislation has given preferential access to the U.S. market for a wide variety of Central American products.

In 1987, in response to a request from Congress for a review of our overall policy and aid commitment to Central America, the Department of State, A.I.D., and the Office of Management and Budget were tasked with producing "A Plan for Fully Funding the recommendations of the National Bipartisan Commission on Central America." This report reaffirmed the objectives of the Bipartisan Commission and called for the continued creative and effective use of P.L. 480 in support of the Central American Initiative.

Results of U.S. Efforts

Where do we stand, five years after the Central America Initiative and six years after the trough of the depression that swept through the region beginning in the late 1970's? If we use the five goals of the Kissinger Commission as our measuring stick, we can see that Central America has come a long way.

The democratic process has been strengthened. Ten years ago, Costa Rica was Central America's only democracy; today, Nicaragua is its only dictatorship. In El Salvador, where voters have repeatedly braved death threats from guerrillas, and in Honduras, there have been democratic transitions from one president to another. In the Central American democracies, human rights abuses have declined sharply and progress is occuring in developing a more professional judiciary and police.

The second goal, economic stabilization, has largely been achieved. In all four Central American democracies, economic decline has been stopped; positive growth is again taking place in all four countries. Again, Nicaragua is the sole exception.

As for the third goal of laying the basis for sustained economic growth, results have been mixed. In Costa Rica and Guatemala, progress has been substantial, but Honduras and El Salvador still have a long way to go.

Progress has also been made in achieving the fourth goal of the Kissinger Commission: that of spreading the benefits of economic growth. It is certain that our food assistance has been a safety net for many. It has contributed to alleviation of hunger and reduction of malnutrition. Although care must be exercised in directly attributing success to any one particular factor, we can certainly take some credit for the decline in infant mortality, increase in life expectancy at birth, and the rise in school enrollments.

Food Aid

Increased food aid for Central America became part of U.S. policy in the early 1980's. Worldwide, food policy for use of commodities available under P.L. 480 is set through a five-member interagency process operating by consensus and chaired by the Department of Agriculture. Accompanying me here is an officer of the Department of State's Bureau of Economic and Business Affairs, which represents the Department in that process. The A.I.D. Assistant Administrator for Food and Voluntary Assistance is here testifying today and can speak to many of your questions about management of food aid in the region. The Treasury Department and the Office of Management and Budget also participate in the interagency process for food aid.

Decisions made in Washington are based on (1) legislation, (2) overall policy considerations that encompass political, economic, and humanitarian considerations, and (3) advice from our overseas posts. Overseas, under the guidance of the Ambassador, the USAID Mission assumes responsibility for implementing P.L. 480 programs, including monitoring self-help measures and uses of local currencies. The USAID Mission co-operates with the agricultural attache and other members of the Embassy team.

Food is a resource that can be used in countries with a food deficit, countries in which portions of the population do not have access to sufficient food or in emergencies (caused by nature, e.g. drought, or by man, e.g. conflict). Among the uses of food aid sanctioned by P.L. 480 are: to combat hunger and malnutrition, to encourage economic development and economic policy reform, to encourage local agricultural production, to foster the development of private enterprise, to enhance food security in developing countries through local food production, to develop markets for U.S. agricultural products, and to promote in other ways the foreign policy objectives of the United States.

P.L. 480 mandates that food aid not act as a disincentive to local food production. In Central America, as elsewhere world-wide, our agricultural attaches provide information on local production and the probable effect of the aid offered. Food aid is offered only after a decision that it will not act as a disincentive to local food production.

Domestic food production is a function of many variables -- expected prices, exchange rates, weather, and security to name a few. Agricultural development requires a favorable macroeconomic climate. Food imports, whether commercial or via P.L. 480, help ensure that people in poor countries do not pay more for their food than people elsewhere. Of concern, however, are artificially low prices resulting from direct subsidies or from the implicit subsidy of an overvalued exchange rate.

Overvalued exchange rates, which have been a problem in some countries at different times in Central America (and in developing countries elsewhere) send perverse signals to consumers, producers and importers, distorting an economy and contributing to balance of payments problems. For domestic food producers, overvalued rates limit availability of imported fertilizers and other inputs, because of foreign exchange shortages, and lower the prices farmers receive for the crops they export. Our economic policy dialogue with Central American countries in connection with our ESF and food assstance has sought to improve the macroeconomic climate.

Food security in developing countries implies increased domestic food production, but should not be equated with food self-sufficiency. First, overall food production should be considered rather than just one commodity or group of commodities in isolation from overall production. Second, specialization, division of labor, and development of markets for trade among producers of different goods is a recipe for growth, whether applied to domestic producers or among producers in different countries. Growth is impeded if an individual, or a company, or a country tries to supply all its own needs and ignores the benefits of specialization.

In providing a recipient country with essential food requirements, P.L. 480 food assistance has the effect of freeing scarce foreign exchange resources for other priority needs. As long as both balance of payments and nutritional problems continue, food aid flows will probably be extremely helpful in promoting sustained growth and food security needed.

Specific Food Programs

Title II programs and food contributions through the World Food Program (WFP) have provided food for particularly vulnerable groups, those displaced by fighting, young children, and pregnant and lactating women. In addition, an adequate food supply for growing urban populations is essential to social progress. Title I has made food more widely available and helped contribute to an atmosphere in which progress can be made toward democracy and human rights improvements.

Our aid has benefitted needy groups and helped meet the nutritional needs of the population at large. It has also generated local currencies used in co-ordination with development assistance dollars to carry out a wide range of projects of benefit primarily to the agricultural sector, where large numbers of people seek their livelihood. All of these projects help improve the food supply in the region. These include projects to improve seeds, develop disease-resistant plants, eradicate plant and livestock pests, reduce post-harvest losses, counter Africanized (killer) bees, add community services, provide farm-to-market roads and strengthen the administration of agencies of importance to farmers.

Conclusion

Reviewing our food assistance to Central America demonstrates that it is no coincidence that the Central American democracies have weathered serious social and political tremors, but maintained their faith and commitment to democracy without falling prey to undemocratic forces. Our food assistance has been instrumental in keeping both the people and commitments alive and functioning.

PREPARED STATEMENT OF GOV. ORVILLE FREEMAN, MEMBER, PUBLIC POLICY ADVISORY COMMITTEE, CARE

Mr. Chairman and members of the Committee, the Select Committee on Hunger has played a significant and constructive role in raising public awareness about the troubling, complex and deeply human problems of hunger and malnutrition and their causality. The challenges these problems pose represent central themes in CARE's history and record as a private voluntary organization and as a major cooperating sponsor with the U.S. Government in meeting global food aid needs. The timely scheduling of this hearing will give us a preview of some of the key food aid issues which should be taken up next year within the context of the Farm Bill reauthorization.

***The philosophical bedrock of our commitment to ending world hunger is poignantly articulated in the House-Senate Concurrent Resolution Declaring as National Policy the Right to Food:

> "Resolved that:
> Every person in this country and throughout the world has the right to food-the right to a nutritionally adequate diet-that this right is henceforth recognized as a cornerstone of U.S. policy."[H. Con Res. 393 and S. Con. Res. 66, September 25, 1975].

But the right to food and human dignity are meaningless unless we recognize the right of human beings to achieve levels of economic and social development which enable them to command access to the food that they need and to which they are entitled.

CARE regards the Public Law 480 Program as one instrument in addressing the challenge of ending world hunger; however that challenge will not be met if we focus politically on Public Law 480 (P.L. 480) assistance and ignore the need to increase food production in food deficit countries. I will return to this point later in my remarks.

Mr. Chairman, as you know, one of the functions of NGOs is to translate foreign aid between governments and multilateral institutions and governments into humanitarian terms for the alleviation of poverty, occasional stress and human capital wastage. NGOs are chosen for this task because they are generally closer to the field realities than government and multilateral aid agency staff can be. By the same token, NGOs are the best formulators of the programs they will implement. We are not contractors but independent cooperating sponsors in such programs. There needs to a clearer understanding of the rights and responsibilities of cooperating sponsors in the Title II program.

Under the provisions of Title II of P.L. 480, the non-governmental organizations (NGOs), like CARE, Catholic Relief Services, the Adventist Development and Relief Agency and World Vision, along with the World Food Program of the United Nations design, negotiate and implement programs in cooperation with the Agency for International Development, the Department of Agriculture and the Governments and NGOs of developing countries.

At the outset, it is important to make clear distinctions between the various Titles of Public Law 480. The purposes of Title II are to meet famine and other emergency needs, to combat malnutrition, especially in children, to promote economic and community development, and to provide food for needy persons and for non-profit school and pre-school feeding and nutrition programs. Title II food is made available as a grant.

The primary purposes of Title I are to develop and expand export markets and to support U.S. foreign policy objectives. Title I commodities are sold by the U.S. Government to friendly governments for dollars on highly concessional terms.

***Given the historical leadership role of the United States in meeting global food aid needs and in light of the latest IFPRI,FAO and ERS (USDA) food aid projections for developing countries which give us cause for new concern, we urge the United States, other donor countries and the food-deficit countries to (1) re-assess the annual food aid target of ten million tons recommended at the World Food Conference 15 years ago (reference:Section 3 of Public Law 480) and (2) establish commonly accepted standards and priorities for food aid programs which improve the food security of the poorest, most nutritionally vulnerable populations and enhance the productive role of small peasant producers, especially women.

In undertaking a reassessment, we would like to call to the Committee's attention H. Con. Res 91, offered by a member of the this Committee, viz, Mr. Bereuter which encourages the Government of Japan to use a portion of its increased foreign assistance funds to significantly increase its role in the provision of international food aid through multilateral and bilateral channels to combat global hunger. The expanded participation of Japan in meeting global food aid needs would give a significant boost to the international effort to end world hunger.

The Food Security Act of 1985 brought significant changes to Title II. First, the Title II minimum tonnage level was incrementally increased from 1.7 to 1.9 million metric tons and the sub-minimum which is reserved for non-emergency programs, i.e., the pre-school, school feeding and food-for-work programs, was increased from 1.2 to 1,425 million metric tons. A.I.D. is to be commended for its efforts to achieve the statutory minimum tonnage levels for Title II since 1985. However, to further streamline and expedite this program,we would recommend that approvals for all non-emergency programs be made public well in advance of the fiscal year and that multi-year approved non-emergency programs not be resubmitted each subsequent year for approval.

Secondly, U.S. non-governmental organizations were for the first time expressly authorized to monetize and barter a percentage of the commodities to meet in-country transport, storage, distribution and other costs which enhance the effectiveness of the use of the commodities as well as implement income generating , community and cooperative development, health, nutrition and agricultural programs.

***One of the ways in which monetized Title II food aid (and Title I sales) can have greater impact is to require that they be targeted to the poor at affordable prices. Depending upon the circumstances, targeting can be achieved by: (a) choosing a commodity type attractive to the poor;(b) selling through marketing systems designed to reach the poor, e.g., ration shops, urban slum bakeries, or purchase by the host government for institutional feeding, etc.;(c) directing sales to poorer regions of the country and (d) selling at reduced prices, provided that (a),(b), or (c) are in force. In this manner, the intrinsic value of the food and its primary justification (from an NGO standpoint), i.e., the alleviation of hunger, is not lost sight of as a result of monetization.

Thanks to the amendments to Title II of P.L. 480 in 1985 and 1987, I can say with absolute certainty that CARE would never have been able to reach the close to 33 million people with food aid we do today in emergency and development projects without the cooperation of AID and the Department of Agriculture and the support of the Congress; nor would we have been able to immunize 1.8 million children under five years of age. So many of the children who are immunized against early childhood diseases are also mal- and undernourished. The Title II food commodities supplement the diets of these children while also serving as an incentive for many mothers to bring their children to health centers for immunization and other low cost health services and interventions which this Committee has strongly supported over the past several years.

You will be pleased to know that we will also complete some 540 village and urban slum water systems this year which will reduce the spread of water borne disease; some of these projects have made use of food-for-work to engage unemployed and under-employed poor who live in these areas and communities. These are community self-help projects which are carried out in consultation and cooperation with local leadership. In the poorer food deficit countries where malnutrition is rampant, food aid can be an important resource in mobilizing support and adding to the caloric intake of communities where the nutritional levels are so abysmally low that the most simple productive tasks are a physiological challenge.

However, Mr. Chairman, NGOs cannot be expected to operate developmentally sound or logically consistent food programs without multi-year commitments of food and dollar funding. Without these commitments, programs suffer and and the intended beneficiaries and our counterparts pay a price. For example, if a commodity which is required for a particular feeding program increases substantially in price and can be sold more profitably on the commercial market, it is no longer available for food aid programs. Over the last three years, in some of our programs, we have substituted Corn-Soya-Milk (CSM) for Non-Fat Dry Milk (NFDM), Corn Soya Blend (CSB) for CSM, and corn, soya, beans and sorghum for CSB. This is diametrically opposed to the nutritional and development objectives set forth in the law.

How can we overcome this problem? We need to insure the availability of certain commodities for our food aid programs by building them into our supply management and international food reserve policy, thus making it responsive to a global food aid supply and demand system.

There is an increasing need for dependable, multi-year dollar funding for NGOs to do feasibility studies, improve the developmental impact of Title II programs and carry out long and short term evaluation. We would recommend that the level of that funding be set at 1% of the combined Title I and Title II budget. This modest investment in the effective planning and management of over $600 million in food aid resources is needed, reasonable and wise.

***Another issue which bears repeating is the obvious need to reduce the number and frequency of decisions required for each allocation of food aid and the exorbitant time spent on redundant Title II reporting which could be better spent on improving program impact and results. These are problems shared by the NGOs and AID and its missions. With respect to accountability, our CARE systems are far more stringent than any of the bilateral and multilateral food aid programs. Because of our management and accountability record and performance, we have been requested by international donors and developing country governments to provide technical assistance in the training and establishment of logistical and food aid management units for the Governments of Somalia and Mozambique.

Another area of concern which impacts heavily on us in the effective management of food aid programs is how increasingly expensive they are to implement. This is especially true in Sub-Saharan Africa where rural infrastructure (transport, roads, and storage) is extremely weak or nonexistent. Additionally, health and education infrastructure which is relatively advanced in some countries of Asia and Latin America is often lacking in the Africa region. World wide, 50 % of all CARE's resources go to Africa. For CARE, South Asia remains the largest region in terms of food aid use for three reasons:

1) Reasonably good infrastructure
2) Continued high concentrations of poverty and chronic malnutrition and;
3) Strong support by the governments of the region.

The per capita beneficiary costs of effectively managing a food aid program in Sub-Saharan Africa may be many times over the cost of a similar program in South Asia where infrastructure and host government support are reasonably good. For example, the Government of India's financial input into the Integrated Child Development Services Program, a program in which CARE provides Title II food commodities, is substantially higher than the value of food even when you add in the ocean freight. We should be looking at ways of using food aid to build and expand rural infrastructure in Sub-saharan Africa.

For example, throughout the developing world, the great majority of people live in rural areas and earn their livelihoods in agriculture. If agricultural growth can be accelerated in the rural areas where all these people are located, it will have a positive effect on employment and income. As John Mellor of IFPRI points out, "we know of no other way, except through agricultural growth and its multipliers, to incorporate this mass of rural people into the development process." The extent to which we can use food aid in tandem with financial resources to engage the rural poor in building and benefiting from rural infrastructure, may well determine how quickly many of these now remote rural areas will benefit from improved technology and greater agricultural production.

***We also need to explore ways of making greater use of Title II barter and swap transactions as a way of both reducing program costs and promoting food security, particularly in Africa. Some NGOs and international organizations have had experience in this area. We need to share this experience and judge its applicability and appropriateness for expanded use under the Title II Program.

In addition, Mr. Chairman, in view of the forthcoming re-examination of food aid legislation, the Committee may also want to review its own report on Literacy and School Feeding Programs (March 1987). School feeding programs have decreased dramatically over the past 15 years and it is only recently that evaluations have substantiated their positive long term impact, particularly in relation to enrollment and attendance of girls. In the poorer, food deficit countries with high rates of illiteracy, especially female illiteracy, we would strongly recommend careful examination of the possible use of food aid as a nutritional and educational incentive and what criteria of expectation should be used. For instance, in the U.S. school meal programs are intended primarily as a supplement which provides energy for enhanced attention and learning throughout a seven-to eight-hour school day. In the developing world, our school meal programs serve a similar purpose; however, they often fulfill much more critical ends. This school meal, though meagre it may be, may be a child's main or only meal of the day. Not only does it provide an important source of calories, protein, vitamins and minerals that produce energy for attentiveness and learning, in many cases it has become that all important determinant for parents to keep a child in school.

In conclusion, CARE will continue to be an active partner and participant in food aid programs in the years ahead. Few, if any, programs are as accountable to legislative directives and regulations as those food aid programs managed by NGOs. Perhaps it's time to make this program less process and more results oriented. Towards this end, a joint review by AID, USDA, and interested NGOs should be carried out with the aim of simplifying and shortening forms and procedures, with recommendations to be made within a definite time frame and well before reauthorization hearings begin. Through this process, we believe that a number of recommendations we have made today could be put into place without new legislation.

We thank the Committee for this oppportunity to testify today.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Office of the Secretary
Washington 25, D.C.

ADMINISTRATIVELY CONFIDENTIAL

Conclusions and Recommendations Resulting from Study Tour of South Asia and Far East

as Reported to the President by the Secretary of Agriculture
November 30, 1961

On our study tour of countries in southern Asia and the Far East we sought to evaluate the role of agriculture and American agricultural commodities in the U.S. assistance program, as well as to assess the potential for market development in this part of the world. The two are related. These countries are densely populated, and in most instances their populations are increasing faster than their domestic food production. As they achieve economic development and higher levels of living they could provide a growing market for American agricultural products, as Japan has already done.

This report represents the judgment of a team of top level professional agricultural leaders, representing different disciplines, each of whom carried out a separate and independent schedule in each of the developing nations we visited.

In summarizing the opinions and judgments resulting from this trip, I am presenting brief explanations of each of the following conclusions and recommendations.

I. Food distribution is an essential part of a program for assistance in economic development.

II. Food aid should be an integral part of the over-all assistance program.

III. This approach requires a shift in emphasis, and in public support and understanding, away from viewing food aid as a temporary surplus disposal operation, and toward viewing it as a program of food for economic development that will be a part of a long-term market development program as well as a factor contributing to our security.

IV. We should seek greater flexibility in our programs for food for economic development.

V. We should seek to expand the use of food as assistance in developing school lunch programs and payment-in-kind projects in many areas.

VI. We should explore ways to develop multilateral programs in food and agriculture aid.

VII. Greater attention should be given to the development of a more productive agriculture as an essential to economic growth in all the developing nations.

VIII. Technical assistance on a far greater scale, and with maximum emphasis on excellence in ability and qualifications of personnel, is of utmost importance in the development of a more productive agriculture and in the achievement of the overall purposes of AID.

IX. Institution building should be a major responsibility of our technical assistance program.

I report these conclusions and recommendations in the sincere belief that their implementation can contribute materially to the interests of the recipient countries as well as to the security of the United States, in a world where there will be progress under freedom.

A country by country report is in preparation, presenting at greater length evidence in support of these conclusions and more specific recommendations for each country.

DRAFT
February 21, 1989
Winrock Talk

FROM HUNGER TO FOOD AID TO COMMERCIAL MARKETS

John W. Mellor
International Food Policy Research Institute

Introduction

I wish to do three things in this brief presentation. First, to review the relationship between agricultural growth, overall economic growth, increasing per capita incomes, and commercial export relationships. Second, to point to the great potentials which lie ahead of us in the 1990s, and why these potentials are grossly under-recognized. And third, to specify a specific plan of action to eliminate hunger and to build commercial markets simultaneously over a 20-year period.

The Agricultural Growth/Commercial Export Market Relations

The key issue to recognize, with respect to commercial, food export markets, is that there is only one growth market remaining in the world. In the developed countries, we have institutionalized the processes of increasing factor productivity in agriculture so that we continually increase our agricultural output by on the order of two percent a year. At the same time, we have raised our incomes to the point at which people do not wish to consume significantly more food per capita even when their income rise quite substantially. Thus, inevitably, supply moves ahead of demand and either exportable surpluses are generated, storage stocks are increased indefinitely, or resources have to be withdrawn from agriculture at an uncomfortably rapid pace. These processes are now beginning to occur in the Soviet Union. So far their demand for cereals has been growing very rapidly, particularly due to rapid growth in livestock consumption, and that has moved ahead of a fast pace of agricultural production growth -- a pace which has been faster than that of western Europe. Eventually, demand growth will slow. At that point, the Soviet Union will gradually move towards self-sufficiency and that export market gradually be lost.

In the developing countries of the world, incomes are so low that as incomes increase demand increases very rapidly, and will continually to do so for many decades ahead. It is possible to raise incomes and hence food consumption of people in developing countries sufficiently rapidly, when combined with rapid population growth, as to outstrip even the most rapid rates of food production growth that are possible. That creates substantial commercial markets if the capacity to pay for those food imports is created.

There are five key points that one should keep in mind with respect to such income growth and the eventual creation of commercial markets. The first point is that the mass of the people in developing countries are rural people. They live in rural areas. The second point is that, if agricultural growth can be accelerated in the rural areas where all these people are located, it will have very strong multipliers on both employment and income growth, as well as output growth in the rural sector. The third point is that we know of no other way, except through agricultural growth and its multipliers, to incorporate this mass of rural people into the development process.

We certainly do not have the capital resources to move them all to nonagricultural production in the major metropolitan centers. Countries that have tried that have ended up with very unequal income distributions and relatively slow growth.

The fourth point is that, when we look for export markets to these countries, we will win some and lose some. That means that they will generate an exportable surpluses in some agriculture commodities, while at the same time importing others. The imports will be much greater than the exports, but if we concentrate on eliminating the exports we may lose the growth processes which bring about the import potantials.

Fifth and finally, we must recognized that there are exceptions to this generalization, that agricultural growth must be the basis on which the overall growth occurs, which provides the higher incomes which lead eventually to commercial food imports. The exceptions, however, in a sense, make the rule.

The two key exceptions are Hong Kong and Singapore. They are both city states which lack a major agricultural sector. That is not characteristic of developing countries generally. The third exception is South Korea which first developed its industrial sector and then that pulled the agricultural sector along. However, South Korea was peculiar in two respects. Most importantly, the extremely large quantities of capital needed to move the industrial sector without support from agriculture were provided by massive capital imports. Those capital imports were way beyond what could be sustained in most developing countries. Second, South Korea had preferred access to the largest and most rapidly growing industrial market in the world -- the United States.

The 1990

The 1960s and 1970s were a period of rapid economic growth in developing countries. The growth rates slowed to a crawl and almost stopped towards the middle of the 1980s. Even in the latter part of the 1980s only a few Asian countries had returned to the rapid growth of the 1960s and 1970s. There are two points that must be kept in mind in assessing the potentials for the 1990s.

First, it is not surprising that economic growth slowed in the 1980s. The oil shocks, the rapid inflation that was associated with the United States participation in the Vietnam War, and a number of related factors resulted in major structural distortions throughout the global economy in the 1980s. In order to bring those structural distortions under control and create a favorable basis for eventual return to growth, the growth processes themselves slowed to a halt in the 1980s. A rapid cessation of monetary growth in the United States, the debt crisis and attempts to get that under control, and other forces were at work slowing the growth process. Second, the basic engine of growth is not foreign trade, but the development of human capital. Human capital molded into effective institutions allows the processes of technological change and productivity growth to proceed. The processes of human capital formation were proceeding rapidly through the 1980s throughout the developing world, even in Africa where the actual growth rate was so disastrously low. A much larger stock of human capital provides the basis for faster growth in the 1990s than was possible in the 1960s and 1970s. It is for these reasons that elimination of the distortions of the 1980s and the growth and the stock of human capital in the institutional structures to utilize it, offer such a favorable prospect for the 1990s.

Eliminating Hunger

A program of eliminating hunger could use large quantities of food in the short run and thereby bring about growth processes which would allow rapid growth of commercial markets in the long run.

The first issues we must raise in talking about eliminating hunger is through growth processes which will create commercial markets in the long run, are who are the poor, where are they, and in what numbers are they found.

By the usual definitions of absolute poverty at the level of severe caloric deprivation, there are on the order of 700 million people below a miserably low poverty line. A somewhat more reasonable poverty line would define about one billion people.

These hungry poor are located largely in rural areas. Ninety percent of the hungry poor in Africa are in rural, areas as are 80 percent in Asia, and even in Latin America, which is so urbanized, 60 percent of the hungry poor are in rural areas.

Most striking about the hungry poor is that a very substantial proportion of them, on the order of 250 million, are located in rural areas of the very poor countries with very high potential for agricultural growth. These areas have been productive enough to support a large very poor population. Rapid population growth has occurred in these areas precisely because they are productive. Because they are productive, they offer potential for the application of new high-yielding varieties which can raise incomes, food supplies, and the hungry poor out of their extreme poverty.

What needs to be done to avail of these opportunities? There are two key elements: the first is technological innovations, which allow an increase in factor productivity and particularly in the yields per acre of the scarce, valuable, highly productive land resource; and secondly, the infrastructure to allow those commercially viable technological processes to move out over the whole rural area.

We know through careful studies of infrastructure impact that rural areas which do not have access to all-weather roads and the institutional structures that go along with them, are left out of the development process.

The cost of providing full infrastructure of rural roads to all rural people in developing countries is immense. It would be on the order of $300 billion. The distribution lines for rural electrification and rural telephones would add something more than ten percent to that cost, a total of something less than $350 billion. Two caveats need to be kept in mind if this figure seems overwhelming.

The first is that somewhere between 15 and 40 percent of the cost of building that infrastructures is represented by the food consumed by the labor-intensive processes which are the most appropriate ones for producing this infrastructure. Thus large food surpluses could be used for this purpose.

The second point is that, if infrastructure were provided over a 20-year period, it would amount to about $15 billion per year.

The program to eliminate hunger could be describe as a 20-20-20 program. Twenty billion dollars a year to pay for infrastructure, 20 million tons of food aid a year to provide the food for that labor force, and a 20-year period. The 20-year period should be seen as combined of 5 years for building up the capacity for the program, 10 years of steady activity, and 5 years of gradual decline.

The cost of such an effort could be significantly shared with developing countries. Perhaps half of it could be picked up by them. The magnitudes, of course, are immense. The $20 billion is equal to a little more than half of the total of current annual foreign assistance from developed to developing countries. The food aid involved would be three times the present level of food aid. Thus seriousness would be required in order to build the rural institutional structures for such a massive effort.

It should be noted that now is the time for such an effort. It would not have been possible 20 years ago, because many other things besides building this basic infrastructure were necessary, but not available. For example, all the institutions of technological change are vital, but hardly existed 20 years ago. Now, most of those are being provided at somewhere near an appropriate scale. It is now time to put in the massive push for the infrastructure.

Programmatic Elements

If one is serious about eliminating hunger through processes of growth that will create commercial markets in the long run, three critical need have to be met. First, there has to be a substantial increase in foreign assistance with the focus on the poorest countries, where the bulk of the poorest people are located. Second, that foreign assistance must have a major food aid component. Third, the need for food security must be recognized in the context in which developing countries are to give greater emphasis to agriculture, the rural sector generally, and to employment which results in much more food consumption. If those processes are to be undertaken, the risks that they may not be continued must be met. That is done by effective food security programs, including putting food aid on a more stable basis and reinvigorating the now more abound or less moribund IMF cereal facility which provides loans to developing countries to meet their critical food imports in times of scarcity. Finally, it must be recognized that a substantial amount of the commercial demand for cereals imports will come on the livestock feed side and not the human food side. At the same time that the potential market is tapped for vast quantities of livestock feed, it should be recognized that the livestock industry in developing countries can provide a tremendous increase in employment and hence demand for food for direct consumption. The livestock industry, however, needs substantial technical assistance if it is to prosper. That needs technical assistance in the production, storage, transportation, and other aspects of marketing. That should form a major part of a foreign assistance program.

Thus there is great opportunity for U.S. agriculture "to do well while doing good." To do so in this complex world requires understanding of complex processes and effective policies that will work in that context.

PREPARED STATEMENT OF NELSON DENLINGER, EXECUTIVE VICE PRESIDENT, U.S. WHEAT ASSOCIATES

Mr. Chairman and members of the Select Committee on Hunger. It is a pleasure to appear before this body to provide input for your hearing entitled Restructuring Food Aid: Time for a change?

My organization, U.S. Wheat Associates, is a cooperator group representing U.S. wheat producers, and its purpose is to promote the export of U.S. wheat around the world. We have 14 offices abroad, and our focus is in helping develop markets for U.S. wheat by working with millers, bakers, and the trade in over one hundred countries. The lobbying work for wheat producers is handled by the National Association of Wheat Growers although we are occasionally requested to provide information on wheat trade and market development issues.

We are very much interested in helping our overseas markets become familiar with U.S. wheat and encourage its use. Government programs, including PL480, are extremely important as market development tools in facilitating the use of U.S. wheat.

My interest here today relates primarily to the PL480 Title I program. It is a credit program, and a very concessional one. Our organization is interested in seeing that the program be made to run as effectively as possible in order to maximize the sales under it.

The Title II feeding program is run primarily by the Voluntary Agencies, and Title III is an adjunct to Title I and has not been especially useful. The Title I program is more flexible than Title II in that it can respond to fluctuating country food needs.

There has been a great deal of discussion in recent years regarding the expanding export market for wheat among developing countries. That market has been growing, and it will continue to increase. The only issue is how will those needs be met and financed? PL480 Title I meets only a small part of developing country food needs.

There has been some discussion recently regarding the option of making PL480 an all grant program. I would certainly not support such a change, and I would not recommend scaling back Title I in favor of Title II. The program already has great flexibility in its terms, and increased concessionality can be provided to needy countries in emergencies or as other special circumstances require. The most generous terms under Title I are 10 years grace and repayment over 30 years which is very concessional. Depending on inflation and other factors, this could amount to a largely grant program.

Until last year, there was a regular pattern whereby many Title I programs were not approved until late in the fiscal year. This would then mean that the recipient country would have to rush to have the commodities delivered before the end of the U.S. fiscal year on September 30. The next year would see a repeat of the same pattern with a lengthy review of the so called self help measures, and approval of the new program again not taking place until late in the fiscal year.

For many small recipient countries with limited storage capacity, this meant that they could go from feast to famine. The mills could receive most of their wheat imports in the last quarter of the fiscal year and initially have inadequate storage, while six months later they might have exhausted their stocks. It would also mean that grain could arrive at the worst time of the year for the local harvest thereby depressing prices paid to producers in the recipient country. Heavy late session programming also has meant that the demand for shipping is stronger and that increased funding is required for freight costs.

A few years ago, these problems were explained to the U.S. Department of Agriculture. USDA was told that people need to eat every day and that food aid recipients need more flexibility in timing their purchases. Also, flour mills need a steady supply of commodities throughout the year. USDA responded last year by substantially increasing the volume of early programming, but we will need to work to see that this lesson is not forgotten in the coming fiscal year.

Our organization is interested in seeing that the purchasers of U.S. wheat, whether under PL480 Title I or some other program, be treated as customers, not welfare clients. The countries that receive Title I assistance need to be able to buy as needed and relate PL480 Title I purchases to their own production schedule and other purchases that they may make during the year.

In some quarters PL480 Title I assistance is seen in total isolation from other food availabilities of that particular country. It can make a great deal of difference whether $10 or $15 million in PL480 Title I is provided early or late in the fiscal year.

I would go a step further and suggest one of the reasons why PL480 has remained at its current size of about $1.5 billion for some years is because of the cumbersome nature of the program. There clearly is a substantial need for credit programs among developing countries, but other commercially oriented programs have been more flexible and useful.

Every year there is a growing market for wheat and other commodities, but the size and effectiveness of the PL480 program will determine what proportion of that market it finances. In contrast with what some appear to believe, wheat financed under USDA's credit programs such as GSM-102 and GSM-103 combats hunger just as much as that purchased under PL480.

It should also be noted that PL480 Title I is carried out on a commercial basis. Tenders for commodities under the program are carried out in the same manner as commercial purchases. The main difference again, is that sales under Title I are on very concessional credit terms.

A major part of the current problem is that USDA became more concerned with other programs in the 1970's and did not provide the leadership that it furnished in the earlier days of the program. In the 1960's, PL480 often covered a fourth or more of U.S. agricultural exports, but today that figure is below five percent. This has meant that the Interagency Committee has lacked the direction and leadership needed to move the program.

On the other hand, as AID's dollar budget has decreased in recent years, it has seen the PL480 program as an alternative resource. Local currencies generated from the sale of Title I commodities are often AID's real interest in the PL480 program, and these local currencies enable AID to carry out projects within the recipient country.

U.S. Wheat brings 20-25 trade teams to the United States each year in order to acquaint them with wheat market conditions and how to buy intelligently in the world market. Many of these countries use the PL480 Title I program, some use other programs or a combination, and others buy on a cash basis. Helping these countries relate to the real world is very effective in developing export markets for U.S. products. Improving their food availabilities and quality can also serve as a stimulus for domestic food production and economic growth in the PL480 recipient country.

To achieve greater results from the PL480 Title I program, it would be helpful to put USDA in charge of managing the program. Other Departments and Agencies of the Interagency Committee would have their input, but USDA would be in charge. USDA has the market expertise to manage the program, and this step would allow countries greater flexibility in their purchases during the year and enable them to better organize their resources to meet their food needs whether from PL480 or other sources.

USDA also can coordinate PL480 Title I with other credit programs. It is important to remember that the legislation which launched the PL480 program in 1954 is entitled the Agricultural Trade Development and Assistance Act, and a major purpose was to develop and expand export markets for U.S. agricultural commodities.

Mr. Chairman, most people do not anticipate much change in the size of the PL480 program, but there is a significant opportunity to make improvements in the program that should not be missed.

Thank you for the opportunity to participate in this hearing.

PREPARED STATEMENT OF RAYMOND F. HOPKINS, PROFESSOR OF POLITICAL SCIENCE, SWARTHMORE COLLEGE

REFORMING FOOD AID FOR THE 1990s

I thank the Members of the Select Committee on Hunger for asking me to testify before you today. After studying food aid issues in this country and abroad for a decade, I am especially pleased to present my arguments and recommendations regarding the future direction for US food aid. I can also comment, as requested, upon its performance in controversial areas, such as Central America.

While food aid *per se* reflects only a small element in the world's political economy, nominally 10% of all development assistance and roughly 20% of budgeted US assistance, it is a vital resource for some countries and interests. For the 1987/88 year, for instance, it represented over 90% of the cereal imports of Ethiopia, Sudan, Mozambique, Haiti, Honduras and El Salvador. Some of these countries are extremely poor, although Honduras and El Salvador are in the "middle income economies" group of the World Bank (World Bank, 1988, p. 222).

US food aid, moreso than that of other states, has been allocated according to a set of multiple objectives. As a result "friendly" governments sometimes received aid while countries with larger numbers of poor, hungry peoples got less or no aid. In light of the special needs of particular countries, especially ones in Sub-Saharan Africa (where estimated "needs" have grown from a small portion of total world need in the 1960s to an estimated half of needs -- by US and FAO studies), food aid must be appreciated as a resource to be allocated with great concern as to its potential impact on hunger.

As the world's largest provider of food aid, the United States should play a leading role in addressing international problems in which food aid is an especially appropriate response. In the thirty-five years since the initial enactment of PL480 legislation significant changes have occurred in the political and economic environment in which food aid occurs. Although our US legislation has from time to time been amended to reflect some of these changes, as in 1966 and 1974, important anachronistic elements remain. US food aid policy and its legislative foundation consequently are in need of reform.

In pursuing our national interests, and the global interests that we share with others, the US must adjust and adapt our programs in light of new information and changing circumstances. Failure to do so represents an egregious lack of vision and entrepreneurship. I refer to this failure as "egregious" because the United States retains a leadership position in international food aid both in resources and intellectual understanding. In spite of this we have allowed inertia and an outdated construction of domestic and international interests to dictate the purposes to which food aid should be subservient. 1990 is a time for substantial reform.

I. BACKGROUND

In 1954 a coalition of cold war, farm commodity and humanitarian interests supported the creation of a special US government program of non-commercial food sales and donations to assist overseas recovery and development. The practice of the US government providing such aid began after World War II but was not institutionalized outside the Mutual Security Act until Public Law 480 of 1954. This law reflected the belief that food aid could simultaneously serve the needs of reducing the costs of our domestic farm programs and, at the same time, serve overseas interests. America's internationally-oriented leaders saw food aid supporting both the humanitarian concern of the American people to avoid starvation and famine and, more broadly, to be a force in our war against the "Communist menace." Congressman Brooks Hays, for example, in discussing food aid in 1953 stated that, with proper use, food aid "can be made a far more potent means of combating the spread of communism than the hydrogen bomb." (Epstein, 1987). Similarly, Senator Hubert Humphrey claimed that US surpluses could be "a great asset for checking communist aggression. Communism has no greater ally than hunger; and democracy and freedom no greater ally than an abundance of food."

Following the enactment of PL480, President Eisenhower created an inter-agency committee to oversee this program and address the multiple objectives of the legislation. Surplus disposal and the expansion of overseas markets for our agricultural products would be protected by heavy involvement of the Department of Agriculture; our political interests in bringing peace to troubled countries and fighting the development of communist ideology would be pursued by the involvement of the Departments of State and Defense; our interests in promoting humanitarian and developmental objectives would be furthered by the involvement of our agency for foreign aid (after 1961 the Agency for International Development (AID)) and the Treasury and Budget Bureau (now OMB) would serve to keep track of program costs and their relation to other government outlays, including ones related to the multilateral agencies, for which Treasury is the lead Department.

Unfortunately neither the legislation nor the inter-agency process could provide a harmonious marriage. The very division of the activity into a Title I program primarily steered by USDA and the State Department, and a Title II program, primarily aimed at supporting humanitarian and development objectives and steered by AID (with special ties to voluntary agencies in this country), acknowledges the unlikelihood that particular food transfers could serve all the mandated purposes simultaneously. A 1977-78 review of food aid, carried out by the Carter administration, considered the desirability of allocating proportions of the food aid budget to particular mandates. This idea was rejected in favor of maintaining a diffuse coalition of interests and purposes within the legislation. At least some food aid, it was felt, could be construed as simultaneously serving multiple purposes. Much has changed since this review over ten years ago, however. Conflicts over the shrinking foreign assistance budget and the uncertainty of surpluses have made food aid much closer to a fully funded cost for the US, as it is for other states (Clay and Singer, 1985).

US food aid is provided today in a world context much changed from the economic order prevailing in the 1950s and 1960s. As a result of the relative decline of the US as an economic hegemon, growth in the world's economy with attendant shifts toward more urban, industrialized societies, and a larger share of aid provided by other industrialized states, the US food aid program plays a much smaller role in the world's food aid regime. Furthermore, it is strikingly out of step; it is the only donor program with an undiluted commercial interest required by its legislative mandate and manifest in its Title I or sales program. Aside from commercial factors, political uses also are more prominent in the US program than in others. Although the cold war hysteria of the 1950s has subsided, strong claims by State Department officials to direct food aid according to diplomatic goals continue. Countries receiving the world's food aid have also changed; increasingly they are ones with chronic food insufficiency, high population growth and modest development capability. Thus, the world of donors and recipients has changed considerably, far more so than the US food aid program has to date.

Since its inaugural Congressional support for food aid has never been a problem. No executive branch request for funding, for example, has ever been cut by the Congress. In several instances, in fact, food aid requests, such as the emergency supplementals proposed by President Reagan in 1984 and 1985, were increased by Congress. Congressional action in this case was motivated by concerns to insure adequate food supplies to Africa, then suffering a famine. Such action was facilitated, however, by the large surpluses which the U.S. held at that time. Cuts in food aid which in constant dollar terms is a third of its earlier size, therefore, have come from Executive initiatives. either OMB or USDA have proposed reductions, as they did in 1973-75.

In the 1950s, at the time of its legislative founding, the United States was joined only by Canada as a regular contributor of food aid to other countries. The Canadians provided aid as grants, while the United States used grants for "humanitarian" aid; for larger untargeted flows, food aid was provided through long-term soft loans, i.e. Title I. These loans, however, troubled other commercial exporters. As early as 1954 these other countries, fearful that Title I food aid could be used to win commercial market shares away from them, coupled with concerns of American economic leaders committed to free trade, helped establish a coordinating committee, under the aegis of the Food and Agriculture Organization (FAO), known as the Committee on Surplus Disposal (CSD). The function of this group was to monitor all food aid to be sure that it was not in violation of free trade principles. Aid was to be targeted in a way to provide food to people whose needs could not be met through commercial markets; because they lacked adequate purchasing power their receipt of food aid would be additional to commercial trade. The origins of food aid, therefore, lay in efforts to address simultaneously regionally specific international problems of development and food imbalances. Some countries were food short; simultaneously the US had growing food surpluses arising from agricultural efficiency and the excessive stimulation of domestic subsidy programs. As just noted, the food short countries have changed; today's most needy states are less significant to US political and military concerns. Similarly, surpluses have become less permanent.

Since its beginning as a surplus disposal, anti-communist effort of the US, the underlying character of the international food aid regime -- encompassing the set of donors and recipients -- has changed dramatically. The U.S contribution has fallen; from providing over 95 percent of the world's food aid, the US now provides between 50 and 60 percent. Moreover, in dollar terms the U.S.'s contribution is less than 50 percent. Other bilateral and multilateral donors now have a significant role.

In 1963 an international organization, the World Food Program (WFP), was created to coordinate a special portion of food aid, aid to be used in recipient government projects that would help people improve their lives, particularly in agriculture. The WFP in 1974 was authorized to expand its authority under a new international committee, the Committee on Food Aid Policies and Programs (CFA) which would serve as an overall body to establish principles for food aid and to provide guidance to donors and recipients of food aid. This "governing" task was added to the CFA's regular charge to approve particular food aid projects supported by the multilateral WFP.

Figure 1 shows how the burden of food aid funding has shifted; also it shows the declining role of food aid as a help to the US in promoting exports. The top portion, 1.1, shows the fraction that food aid has represented as a portion of total U.S. agricultural exports, while 1.2 shows the fraction of food aid provided by the U.S. as the total of all world food aid. The evolution of giving summarized in these two charts indicates clearly the decline in food aid as a major factor for US commodity exports and the decline of US resources as the sole provider of food security for poor countries. At the inaugural of this regime, two countries were providing aid to ten to fifteen countries, by 1989 the regime has expanded to the point where over 25 countries provided food and over one hundred received it. Ironically, the physical volume of food aid in tonnage terms declined over this period even as

FIGURE 1.1

U.S.G. food aid as a percentage of
total U.S. agricultural exports

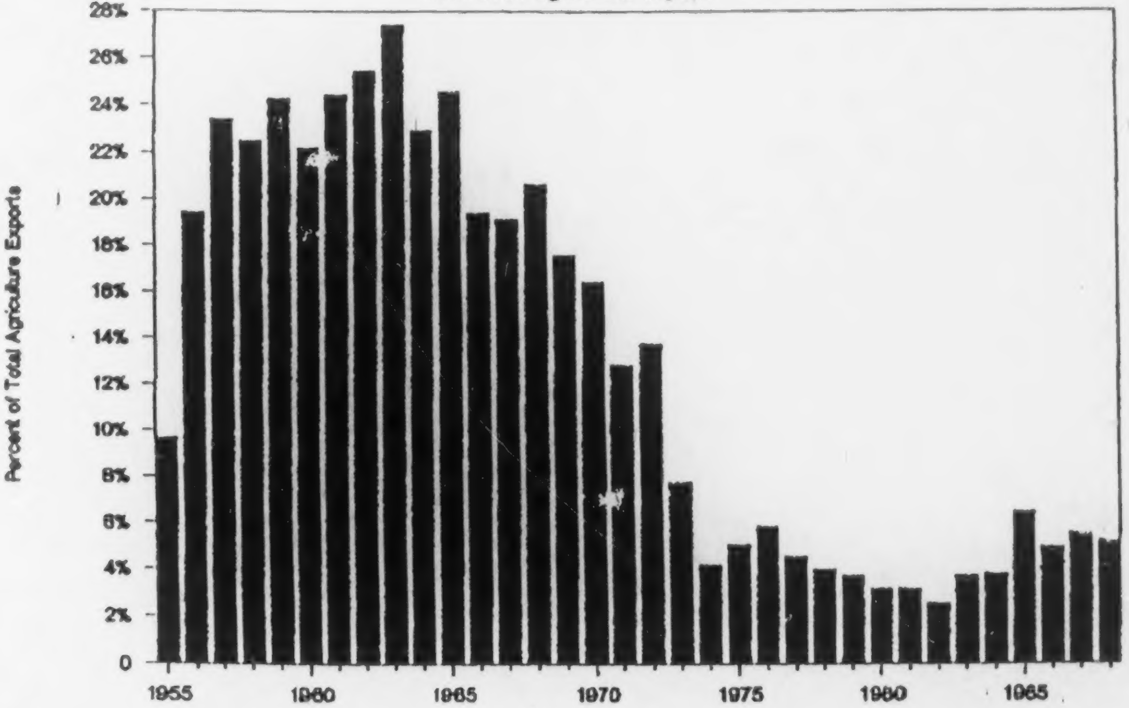
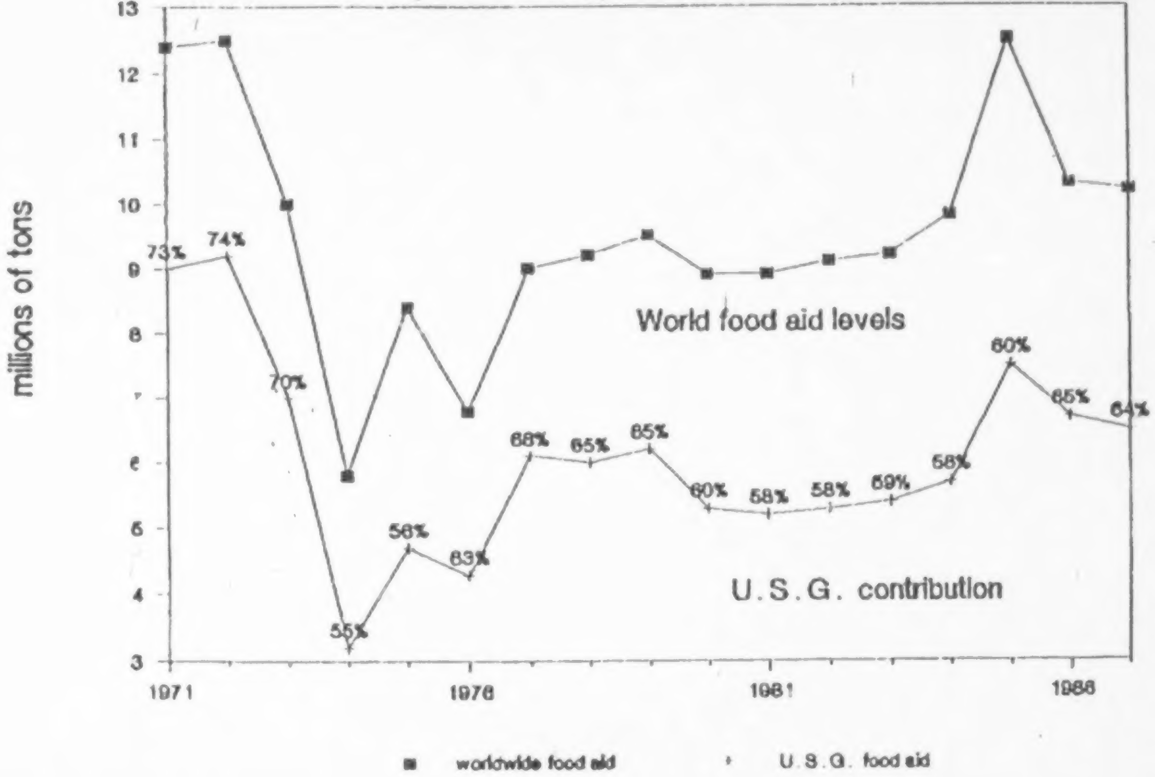


FIGURE 1.2

U.S.G. cereals food aid as a percentage of worldwide food aid, 1971 – 87

(millions of tons) Source: FAO



the burden of providing it became more widely shared.

The share of food aid in international trade has likewise declined. At its zenith in the mid-1960s the U.S. provided over 15 million tons; other donors' contributions, particularly during the Indian emergency of 1965-66, raised the total to 17 million tons -- over one-fourth of world grain trade. In the 1980s food aid averaged about 10 million tons; the peak was 12 million tons during 1985 at a period when grain trade exceeded 200 million tons. Thus food aid constituted about 20 percent of total world cereal exports in the 1955-65 era compared to about 5 percent in the 1980s.*

Food aid allocations have also changed. Over the years particular interests, sometimes famine alleviation, other times the desire to reinforce foreign policy actions or even support military adventure, have had a compelling role in the US's allocation of food. For example, in the mid-1960s and again in the mid-1980s, famines in India and Africa respectively caused substantial shifts and increases in the size of food aid. Conversely, in the late 1960s and early 1970s, use of food aid as a resource to support the American military effort in Southeast Asia became important. When American involvement in that region redirected aid, Congress reacted to limit the economic and military support available to the State Department in its backing for governments in Cambodia and Vietnam. Food aid was increased as a way to compensate for falling aid levels in dollars. Congress then enacted rules to limit program Title I food aid to the poorest and neediest (Wallerstein, 1980). More recently State Department political objectives have pushed food aid toward Central American states (except Nicaragua).

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* These figures are for trade in grains, the major food crops traded. There are, of course, non-cereal components to food aid but they usually constitute a relatively small portion of such aid by volume or value, principally dairy products and cooking oil.

II. EXPERIENCE AND REGIME REFORM: LESSONS FROM AFRICA

Just as thought regularly precedes action, so legislation either precedes or at a minimum consolidates program reform. The 1966 reforms of food aid, for example, shifted the emphasis of food aid's purposes to development, requiring countries to establish self-help measures to be funded by sales of concessional food. These changes arose in part as a result of concern that food aid could hurt recipient countries through disincentive effects upon local production. Disincentives might be created by weakening a government's interest in providing efficient prices or funding for research for the food and agriculture sector, by lowering market prices for foods and thereby decreasing food producers' income and incentives, and finally by creating tastes for imported foods such as wheat and rice that are expensive or impossible to produce locally, thus creating an unnecessary dependence on food imports. These concerns, raised by economists studying food aid in the 1950s, stimulated the 1966 reform aimed at avoiding disincentive effects and promoting self-help.

Today further reforms are in order based again on the experience of research and evaluations. Let me focus on Sub-Saharan Africa as an example of why reform is needed. This region has grown to absorb the largest share of food aid over the last fifteen years. In Africa research related to food production, marketing, state intervention, appropriate new crop strains and household nutrition habits all have accumulated to the point where major conclusions about the importance of and solutions to food problems are possible. This research's conclusions are not only widely shared but dictate new formulas to use food aid as an effective resource transfer.

Food is central to Africa's economic development. Per capita food production declined in Africa from 1970 to 1983 by 17 percent. This was a major factor in the general economic malaise of that period. For food aid to help solve food problems that hinder African development, it must be designed to improve national food markets and foster local development actions. Indeed, the US Food for Progress program was proclaimed with just this link to food in mind. Accomplishing its goals could prevent famine emergencies like those of 1973-74 and 1984-85 from recurring.

How would food emergencies be prevented by such accomplishments? First, increasing productivity by rural food and agricultural producers is critical for general economic development and it also provides income to some of the poorest, most vulnerable groups. Second, reducing variations in food supply in Africa would avoid debilitating instabilities in price which cause harm to the economy as a whole and misery for the poorest part of the populace. Third, establishing a security floor under hunger is a highly effective and equitable approach to improving general well-being.

Increasing the productivity of those who labor in food production is critical for economic development for several reasons. First, subsistence agriculture is the largest single source of employment in Africa. In effect it establishes the minimum wage. This also means it sets the minimum income standard; below this group there is now an even poorer and growing landless group who, denied subsistence plots by legal rules or the cruelty of nature, populate permanent squatter encampments. Similar developments can be seen in Central America. Second, food surpluses from the rural population are crucial to freeing labor to grow cash crops and work in non-agricultural sectors. Food grown by these people is an important wage good. In general, food accounts for 50 to 70 percent of most Africans' household expenditures, whether purchased or used as a direct consumption item. The higher the income of food producers, the higher will be the wages in other sectors of the economy, and the more pressure will be put on these sectors to use labor efficiently. Linkages between increasingly efficient rural food producers and small-scale rural industries can further stimulate mutual growth.

Major price instabilities strike economies of African states when food production varies much over 10 percent. During the recent 1984-85 drought, cereal production fell as much as 50 percent in some countries and overall staple food production by 15 to 25 percent. Per capita food productivity in Africa is not only the lowest in the world, but variability in production is high, exceeded only by the Soviet Union.

In developed countries, such as the US or Australia, with the many possibilities people have for making adjustments in their diets and with government safety nets for the poor, it is easy to cope with such variation. In 1983, drought reduced the US corn crop over 50 percent. It was barely noticed by those outside the farm community even though corn prices rose dramatically. Australia, a major wheat producer, lost over half its wheat crop that same year in its worst drought in this century. In response Australia bought wheat on the world market to meet its commercial export and food aid commitments, and bore the burden of this adjustment in a rather pragmatic fashion.

In contrast, in Africa, because of the importance of food in employment and in household expenditures, instabilities in production wreak havoc in national economic life and in individual lives. Populations in areas hardest hit by shortages migrate, burdening other regions and causing the loss of capital resources. Terms of trade are drastically altered; wealthy herdsmen become impoverished. Employment shrinks, demand for non-food goods falls and the formal economy is increasingly circumvented by informal exchanges. Even in years when national food production is normal, large numbers of Africans can be affected by regional variations.

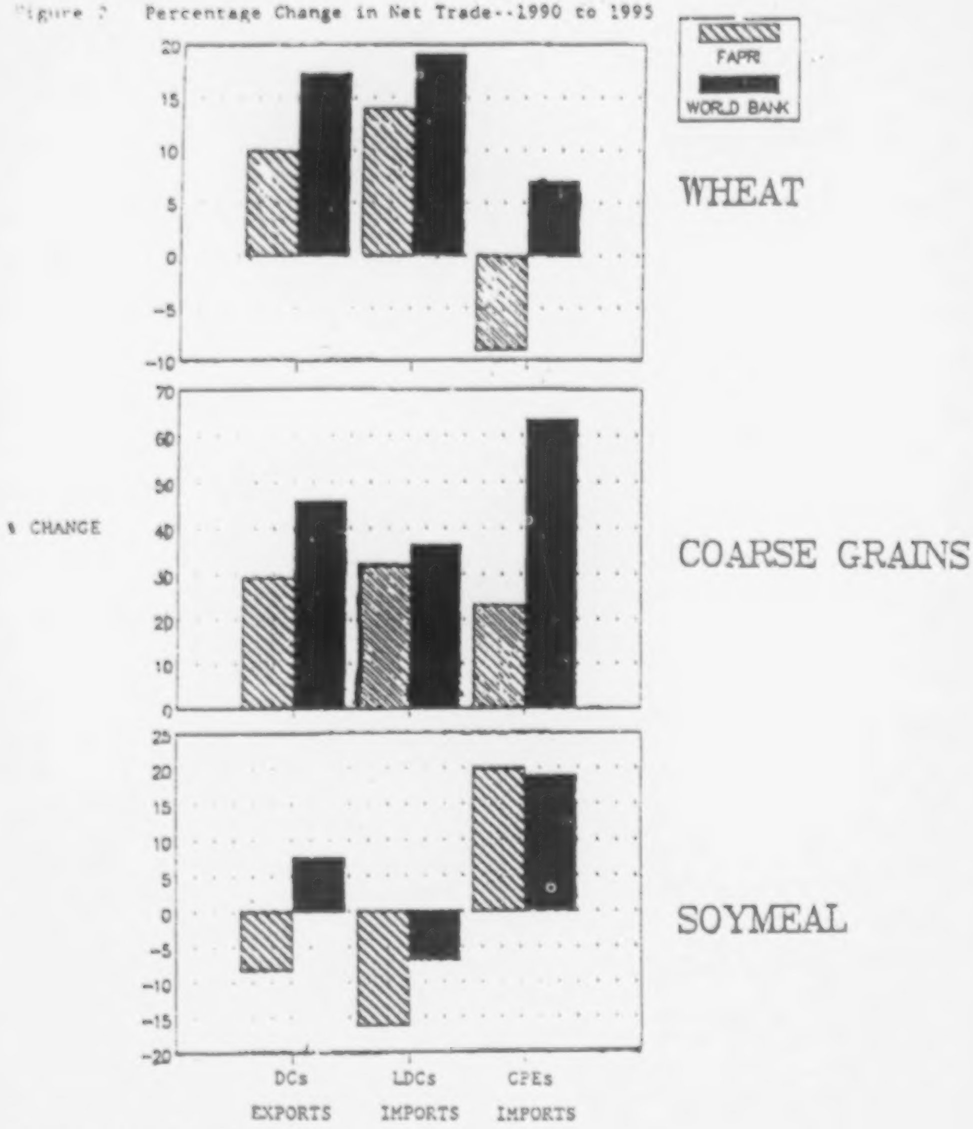
To end hunger in Africa requires increased productivity, reduced market instabilities, redistribution of access to work or other social bases for gaining exchange rights to food, and institutions which will sustain such changes. The specific uses of food aid must be designed around a recognition of these central elements in each country's food system and must anticipate the changing needs of the food system with respect to satisfactory performance of these features.

Desiderata for food aid to be constructive in Africa require planning and formal commitments. In planning how much food aid Africa could absorb without disincentive effects, a conservative approach would be to examine the average level of commercial imports in the 1980s. While it may be inappropriate to assume that all additional food aid could substitute for commercial imports that, thanks to a growing debt burden, are not affordable, past imports requiring foreign exchange are a good indicator of economic demand and hence absorptive capacity available without displacing local production. Market and political factors make it implausible that food could actually substitute completely. Nevertheless, past consumption levels, assuming a static equilibrium expansion between domestic production of food and domestic demand, give a rough "shadow" estimate of how much food aid can be absorbed.

A National Academy of Sciences workshop projected that world food aid needed for stabilization in LDCs by 2000 would be 29-37 million tons -- roughly triple current levels. For Africa about half or more of projected import increases may require some aid to finance them. Figures 2 and 3 give some simple projections collated at this workshop. These show the expected growth in exports, especially wheat (NRC, 1989). Figure 3 focuses on Africa. In response to the "need" gap, grants to support food imports to Africa should

FIGURE 2

Figure 2 Percentage Change in Net Trade--1990 to 1995



Source: Adapted from Meilke and Larue, 1988.

FIGURE 3

Figure 3A. Africa and Middle East Wheat

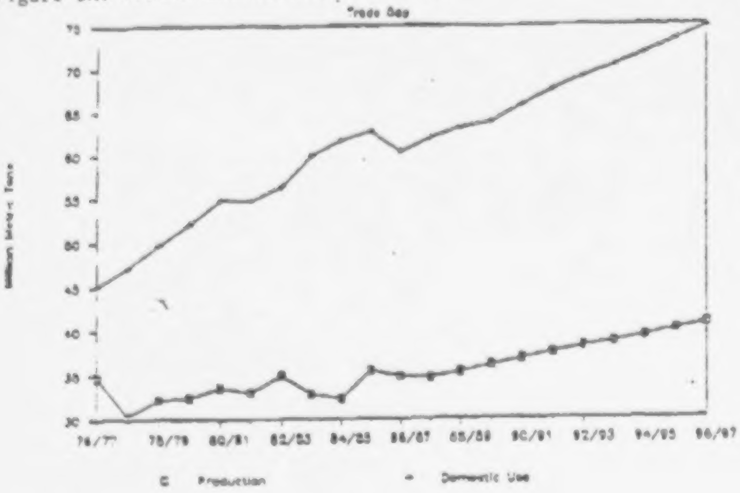
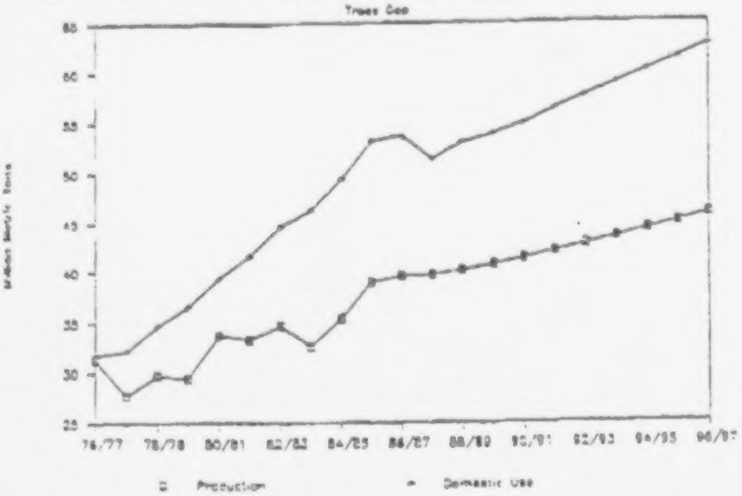


Figure 3B. Africa and Middle East Coarse Grains



be tripled. For food deficit countries where reform measures are moving in directions urged by the US and the World Bank, such an increase in callable food guarantees would be especially deserved, particularly as a countercyclical way to balance food needs and prevent shortages. For African countries all food aid could increase by $500 million per year, I believe, without violating the spirit of usual marketing requirements set to protect commercial interests.

Successful food aid requires multi-year commitments. Each country's use would work best if the agreement regulating the aid allowed the resource flow to change from year to year in size, type of food commodity and even between food and cash. For example, if Guinea or Madagascar were to have a banner year in rice production, then a switch to allow a donor to send them less rice and some wheat or cash might be appropriate as a reward for their "success."

A high priority for food aid should be as a resource for improving African states' food markets. Past US rules and practices regarding food aid made this priority difficult to accomplish. First, the interagency working group has usually had inadequate information about failures in food policy and insufficient leverage or assurance of covering risks in policy change to nurture market improvement. The effort to use food aid in support of a grain market restructuring in Mali is the major exception, and that effort was set back by the 1984-85 dropout.

In many African recipients, unfortunately, policy reforms to improve the food system have been lacking or reluctantly made. Reluctance to move toward greater reliance on small farmer incentives and private market transactions coupled with fewer food subsidies and trade restrictions results from a legacy of socialist ideology, colonial-period market controls, efforts to restrict pariah entrepreneurs and a demand that the state assure food security to key aid must address policy reform.

A third priority is that food aid should be provided so as to maximize its economic gain in the transaction. A classic trade-off exists between the two economic desiderata of efficiency (i.e., minimizing costs per unit) and effectiveness (i.e., getting the job done). This trade-off is especially germane to food aid. To be effective in stabilizing food supplies and expanding access of the hungry to food without creating disincentives, the amount and type of food aid provided a recipient country needs to vary from season to season. This requires more administrative oversight than sending a fixed amount annually. It is hard, therefore, to minimize costs and still meet such needs effectively. If world food prices should be high when needs increase, then donor budget costs must grow or effectiveness is lost as the volume of food shrinks, failing to prevent destabilizing price rises in a recipient's food system, new drains on foreign exchange, and the growth of hunger in the population. From the point of view of effectiveness in getting caloric supplies to the most hungry and generating resources for development, a country (and the "right" people within it) must receive the right amount of the right kind(s) of commodity, at the right time. When this happens, however, the purchase costs, transport costs and storage costs may all be higher than under a plan to deliver food at the cheapest possible cost per ton. Since saving money and saving lives are both worthwhile goals, solutions seeking to minimize costs and maximizing benefits are needed. While no general formula is workable, there are ways to strike a balance. In light of the changing food situations in Niger in 1984-87, for example, more cost minimizing/benefit maximizing strategies could have been adopted by donors. In 1985-86 grain production in Niger *doubled*. By 1987 storage was at full capacity just a year or so after many people in Niger were facing starvation.

Rather than continuing to supply sorghum or other grains when the country was stuffed with millet, donors could have switched commodities. Milk, for instance, was in short supply after herds were depleted. The principle illustrated here is that food aid should help stabilize grain *and* overall food supplies in each case..

The rationale for allocating food aid ultimately requires that benefit exceed costs for *both* donors and recipients. Beyond this, one begins to look for improved benefit/cost ratios for donors and recipients in situations where different food aid levels may result in greater benefits for one but greater costs for the other. This search need not be a zero-sum situation, i.e., where any gain to one is a loss, however minor, to the other. Hence, improvements in the cost/benefit ratios of both donors and recipients can be sought together. Although "optimal" outcomes *for* donors and recipients simultaneously are unlikely, there are likely to be choices, especially when surpluses exist in donor states, such that greater food aid improves relative benefits for both.

The costs of US food aid have historically been less than those nominally stated. This is true for surplus holding donors since the export of food reduces downward pressure on domestic prices and creates a savings in the Agriculture Department's expenditures for commodity programs. Of course, trade liberalization, including reducing subsidies, and the greater use of supply management could also reduce the level of surpluses and the Treasury's "savings" from food aid. Indeed, if food aid carried no benefits, these other approaches would be more cost effective. Food aid, however, is beneficial. The best way to price the benefit food aid brings is to use the "shadow" price of the equivalent food on the local market, that is to calculate what the food would sell for in the African recipient in the absence of any government regulation which artificially lowers (or occasionally raises) prices. When the PL480 legislation requires counterpart funds, this approach should be used. In comparing alternative commodities to be used as food aid, the way to optimize the value of the transfer is clearly to choose that mix of commodities that can be obtained at the same cost in the US but yield the highest local sales possibilities in the recipient, thus reflecting relative demand (Reutlinger and Katona-Apte, 1984).

Cooking oil rather than grain may be the key commodity on occasion, for example. Market distortions might make this judgment difficult, but local economists, perhaps working with host government and other donor officials, should be able to reach judgments on this issue fairly easily every three to six months. The simple point is that donors should provide the food commodity that yields the highest benefit in sales terms in the recipient relative to the procurement costs. This is true whether the food is to be sold, to be "exchanged" or to be used directly in projects and not marketed. Of course, marketing food, except for emergency cases, is the most efficient way to provide it, and one most in keeping with expanding food marketing channels. PL480 legislation should reflect this by making monitization of all food aid the norm and direct use of imported food aid in feeding people the exception to be used for emergencies and other special situations.

A further point is the taxation benefit to African states of the revenues from food sales. Selling food aid openly, into areas with effective demand, can amount to cheap, efficient and progressive taxation. True, in extreme cases, it has been suggested that food aid might act as a "drug," encouraging governments to become increasingly reliant upon it either as a way to cover large deficits in a food subsidy program (as in Egypt) or as a source of important revenue which might better be raised through a more egalitarian and efficient taxation system. Bangladesh, for example, depended at one time for a large proportion or its budget on food aid. In the mid-1970s revenues from food aid sales were equal to 75 percent of government development expenditures. Instead of developing a more efficient and effective taxation system, Bangladesh, some argue, was allowed to develop a dependency on earnings derived from its food sales, earnings which would disappear if either domestic or commercially imported food were used in its ration shop sales instead of food aid. Further, there have arisen politically important groups that have a stake in the food shop system being continued. Thus, it will be important for African states to use revenues from food aid to assist agricultural development and not principally to run food subsidy programs. A streamlined PL480 bill could reaffirm the US's priority for such self-help targeting.

Donor coordination is another widely agreed upon requirement of a reformed food aid regime. Numerous studies by the World Bank, the European Economic Community and the International Food Policy Research Institute have concluded this. The multiplicity of projects, especially in small countries like Lesotho and Borkino Faso have been noted as creating unproductive burdens on governments, not to mention the cost of dealing with project design, review and evaluation experts from fifteen or twenty donor agencies. Perhaps even more imiportant for food aid is the prospect that failure to coordinate aid may (1) waste resources in clogged transport routes, warehouse spoilage, demurrage charges and (2) allow procyclical arrivals of food, especially egregious if duplicative rather than complementary commodities arrive as food needs decline.

With the establishment of food donors who were not food exporters in the 1970s and the decline in efficiency of food aid as a surplus disposal mechanism for exporters, the surplus disposal rationale was attenuated.

Furthermore, a new rationale had arisen. Countries such as Mali, Kenya and Zimbabwe, clearly too poor to be significant donors, could improve their own economies if they became occasional suppliers of food aid paid for by richer countries such as Japan or Germany. Such "triangular" aid can be extremely helpful. First it provides cash to a poor country to secure food, second it strengthens regional markets, and third it delivers food to a country in need. Expanding food aid from such donors would promote regional trade, reduce transport costs, and stimulate development. "Triangular" supply arrangements, in which neither the food donor nor recipient is the source of supply, have been encouraged by international groups such as the World Food Program; moreover, the US could benefit directly or indirectly as more surplus food (from the US or not) moved into trade channels. Even the United States, the premier food-supplying nation, has entered into triangular supply arrangements, shipping wheat to Zimbabwe so as to supply white maize to Zambia as food aid.

A last point of agreement among experts is that food aid should be given away as little as possible. Welfare may be temporarily an unfashionable term, but the fact is that the welfare of Africans is low, and the world's rich have an obligation in an interdependent world to assist Africa. Furthermore, it is in the long term interest of the US and other rich countries to do this. Welfare, however, does not and should not mean free food distribution. Free food can disrupt voluntary rural work efforts, create dependencies among nomadic populations as in Mauritania and northern Kenya, and become a device for manipulating populations by the agency charged with the free distribution. Famines are the only real situation in which free distribution is justified. Famine prevention, of course, is a goal of reform in food aid. Thus, a major effort should be made to create rural work projects in areas of greatest nutritional vulnerability, not necessarily using food, but having the possibility of adding food as an input. These projects could then be expanded at times of regional or national crop shortfalls and food from overseas, if appropriate economically, could be used. Food could be part of the work project's compensation program, either as a partial wage payment or through closed loop sales to "beneficiaries" in the project. This would expand total food supply to an area suffering an economic downturn and/or food shortfall that threatens the populace's basic food security. Monetization of all food aid as the "normal" procedure, as mentioned earlier, should be part of the reform measures in the 1990 legislation.

In conclusion, then, there has developed around food aid since the 1950s a set of widely shared norms for its appropriate use, taking into account its ramifications in the food system and economy of the recipient country. Such norms, discussed above as priorities in Africa, are shaped by a consensus on what has been learned from experience with food aid impacts. Reform of US food aid should respond to the lessons of these norms. First, because food aid is a substitute or an addition to domestic production, policies affecting investment and efficiency in food production are highly pertinent to whether food aid can avoid disincentive effects; this in turn affects its future need -- food production policies must be linked to food aid. Second, macro economic and food price policies affecting incentives are important in the allocation of food aid since food aid can reinforce or undercut government policies in these areas. Third, food subsidies either targeted or general and their cost effectiveness are a key factor in the actual impact food aid will have. Finally, information on nutrition and health related issues provide a basis for the justification and selection of commodities provided as food aid.

III. PRESCRIPTIONS: TARGETING FOOD AID TO ADDRESS FOOD INSECURITY, ENVIRONMENTAL AND AGRICULTURAL PRODUCTION PROBLEMS

In light of the changed world situation and our increased knowledge of effective food aid policy analysis, the United States should adopt the reform suggested above. Having established the initial principles and rules under which food aid became an institutionalized regime in international trade (Hopkins, 1987), the US is now in a position to provide new leadership in the international community. How? By legislation that shifts priority to needs, targeting resources into areas where the use of food is most appropriate and most efficient in promoting development that will reduce need, and setting an example in its own behavior so that food becomes delinked from agricultural subsidy and protection policies. This would enhance the US position in the Uruguay round of GATT trade negotiations over agriculture, especially if the US had a position on "bona fide" food aid common to other donors -- i.e. grant not loan aid. This would also allow aid to be managed in a way that would be more likely to induce policy coordination and increased food provision by other industrial countries who, unlike the United States, are not food or agricultural exporters.

To achieve this goal, five steps would be appropriate. These steps are: 1) establishing food needs as the principal allocation priority for food aid; 2) establishing modalities whereby needed tonnages of food aid, particularly for the most stressed populations and locales, currently heavily in Africa, would be protected from price fluctuations; 3) streamlining food aid to make it a fully grant program and one related to prospects for debt forgiveness (this is particularly important in countries where such a step is appropriate in support of economic policies to stimulate development and cushion economic sacrifices required to enhance domestic investment and frugality), 4) enhancing policy coordination and co-financing among donors, and

5) eliminating earmarking except for projects that attack fundamental problems leading to food insecurity, including high population growth, deteriorating soil and forested land and the waste of harvested grain (as consistent with the Hamilton Task Force recommendations).

These prescriptions may more precisely be put forward as reforms to the existing PL480 legislation and implementation. The aim is to establish changes not only in US procedures and rules, but throughout the international regime. The first proposed change, giving priority in allocations of food aid to countries desperately short in domestic production and without adequate economic purchasing power in the world market, has an intuitive sensibility. After all, these are countries in which the need for food is undeniably large, while the commercial import option to achieve food security is blocked by national poverty and growing debt. These countries need to import food under any circumstances. The important thing is that the food should come in a reliable and responsive way to their needs which vary from year to year. This requires that other priorities, particularly diplomatic, commercial and bureaucratic ones, do not force the misappropriation of food for less efficient uses. Furthermore, inertia, built-in to the aid system through the older, multiple purpose, annual authorization view of food aid can prevent quick responses to changes in the level of need -- or type of commodity.

Food aid regulations should be formulated in a way that stabilizes poor countries' per capita food supplies, while at the same time meeting one of the newer norms of food aid provision, as stipulated in the Bellman Amendment of 1979, namely to prevent harm to local markets and producers. Following this scenario the top 10 countries for U.S. food aid would not include India, Egypt, Pakistan, Philippines, El Salvador, the Dominican Republic, and Morocco, states where the U.S. is the dominant provider. Rather, the allocation of funds would be substantially redirected towards countries with high rates of environmental threat, malnutrition and high popoulation growth such as Ethiopia, Mozambique, Sudan, Bangladesh, and a number of other smaller African states. Rewriting Section 2 of PL480 to meet the needs priority might look like the following:

> *Sec. 2. The Congress hereby declares it to be the policy of the United States to enhance food security in developing countries and to encourage international trade based on the use of food aid funds to combat hunger and malnutrition and to encourage economic development, especially in local food and agricultural production. In furnishing food aid under this Act, the President shall --*
>
> *(1) give priority consideration, in helping to meet urgent food needs abroad, to making available the maximum feasible volume of food commodities (with appropriate regard to domestic price and supply situations) required by those countries most seriously affected by food shortages and by inability to meet immediate food requirements on a normal commercial basis.*

Since price fluctuations pose a special problem for food security and are likely to be substantial in the 1990s a second recommendation is to provide stability in food resources targeted to the needy countries and peoples, especially for extremely vulnerable states in Africa. The creation of a special earmarked, no-year account for Africa, similar to subminimums already used in the Title II legislation, could guarantee greater security for the special needs in Africa. An African subminimum, added to the existing minimum tonnage requirements, would guarantee food for Africa and reduce the prospect that people in the world's poorest countries will have to disproportionately share the costs of instability in world food markets in the 1990s. With appropriate links to policy in recipients, this subminimum need not have a disincentive effect.

The third recommendation is to redraft the authorizing legislation so that AID may administer an entirely grant program dedicated to development. Title I/III would be moved to a separate legislation for use by USDA, the State Department and other agencies, including AID, and would serve the purposes of subsidized food exports from the US government, including market development. Roughly, a billion dollars of grant funds per year tied to food costs is a reasonable target. The separately legislated export promotion and diplomatic program would receive PL480 reflows plus other funds sought by USDA for assuring US commercial market shares. This separation of programs would provide a double bargaining asset in the GATT negotiations. The grant food aid program would send aid to those countries where food can be a valuable resource in attacking the particular problems associated with food insecurity and hunger. The export program could be a more direct counter to other countries' agriculture subsidies. Detailed prescriptions in PL480 currently should be eliminated both for the transformed Title I (e.g. Sections 101 and 108 should be dropped) and for the expanded grant program (e.g. make Section 206 more flexible and targeted for food security objectives). Uses of local currency should be given high priority for attacking pressures on arable land and the rapid environmental deterioration in many countries. Irrigation, reforestation, research on production and other national and international collective benefits should be central to projects supported by food aid, either under Section 201 or 206.

Fourth, in rewriting the legislation, Congress should provide incentives for other countries to coordinate and cooperate with the United States in overseas undertakings using food aid. This would be desirable in order to raise world levels of food aid. Needs forecasted in a 1986 National Academy of Sciences workshop indicated that stabilizing national supplies in developing states required a doubling or tripling of the aid currently available. Reform of the US program should encourage other donors, who are not exporters, such as Japan, to view more positively the leadership and collaboration of the United States and make it easier for them to utilize U.S. farm commodities in their food aid programs. Reforms away from using aid as a trade subsidy should put the United States in a much stronger posture vis-a-vis our own preference for a liberal trading order. If the US adopted the first recommendation -- a need approach, it could negotiate with other donors to match or exceed the US in contributions. Other donors' grants should grow substantially, as they once did from 1968-78. This recommendation would strengthen the current Section 205 of PL480. Otherwise, in the Uruguay Round of trade negotiations, the US will have to defend our call for reduction of barriers against the allegation of inconsistencies in the U.S.'s own program via Title I programs used for "unfair" market competition as measured by free trade principles.

A _fifth_ reform is to reduce radically earmarking and the requirement for "double" counting of food transfers. Earmarks for use of local sales receipts are cumbersome and inefficient. Their purpose might appropriately be maintained in the legislation much in the manner of the Bellman Amendment. This requirement, that the Secretary of Agriculture affirm that any food aid provided will not adversely affect local production or national/international marketing, could be a model for any other Congressional constraints. For example, Congress might require food aid be targeted to alleviate food insecurity without legislating specific modalities, which can change. Another "amendment" could require that priority be given environmental concerns such as improved and more efficient agricultural techniques. If food aid allowed recipients to exploit less heavily the marginal soils of Africa and to protect the environment more generally, its allocation would be given high priority among the projects financed by the U.S. Furthermore, such uses would be especially attractive for co-financing with other countries, possibly under the aegis of the World Bank which already is encouraging such steps. Particular projects, such as food-for-work programs, might be supported by food from the U.S. and food and cash from other donors. Currently, projects developed using food aid are widely scattered geographically and functionally; they are seldom integrated into national food needs or linked to food production and distribution of the recipient country. This is especially true in mother-child health clinics and institutional feeding, though this type of project could be adapted to a food/population/environment policy context. A U.S. priority for food security would be evidence of US leadership among the economically sophisticated members in the aid community and could be more successfully monitored in Congressional oversight.

The United States remains the world's largest exporter of grains, the largest provider of food assistance, and the most complex policy implementator. Detailed legislative requirements, however, often create undesirable constraints and complex configurations for policy implementation. They can even create disincentives within the bureaucracy to accomplish tasks. As such they are often a source of amusement and scorn among political scientists. Although Congress has often been successful in earmarking specific projects or in initiating higher standards for environment and industrial performance, its efforts have inconsistent effects. Rather than streamlined, efficient management resulting, often the more complications that have been built into the legislation, as in the Title III case, for example, the more the results have yielded the net opposite than intended.

IV. CONCLUSION

The United States and the other donors do not provide adequate food aid to attack successfully food shortages in poor states. The world's most food insecure states remain extremely vulnerable. Furthermore, what food aid is provided is not allocated in relative proportion to needs. While many highly food insecure states often suffer from declining agricultural productivity, increasing deforestation and high population growth rates, they are given relatively lower priority in practice. In fact among the top twenty recipient states of US food aid there is a negative relation between degrees of need and per capita supply! Even in a country like El Salvador, which has rapid deforestation, generous U.S. programs have largely ignored production and environment problems. This is equally true in Africa where much aid has been "dumped" under the guise of emergency feeding, i.e. free food. An overwhelming case can be made for changing regime practices, especially those of the US, towards targeting food to food insecure states and tying it to appropriate food production and environmental goals. Currently food aid provided to the most needy countries comes disproportionately from other countries than the United States. Thus, the US has fallen behind in taking leadership to address global environmental and agricultural production needs to alleviate emergencies. Potentially explosive situations are developing in the highly concentrated urban populations emerging in the Third World. Cognizance of this danger is required. Otherwise urban based political pressure will accelerate the mining of the earth's soils in the next decade in these poor states.

The criticisms just reviewed have given rise to an evolutionary change in the world's food aid regime. Initially food aid was to come from donors' surpluses, to add to total trade, to be provided on an annual ad hoc basis, and used to promote commercial trade or to address emergency humanitarian needs. New principles, largely contradictory to the founding ones, have arisen. The new formula, reflecting principles of market efficiency and development gains rather than exceptionalism and diplomatic gains, are that food aid should (1) be supplied most efficiently, (2) be a substitute for a recipient's food imports, (3) be given under longer term commitments, and (4) provide development investments for recipients.

Each of these four principles whould be incorporated in future US legislation, changing the remaining elements of the older ones still embodied in the original legislation. In some cases, as with other established US programs, although new principles have been openly advocated by food aid specialists, based on expert consensus, such ideas are not well received by national government budgetary authorities, diplomats, or commodity interests.

The recommendations for the PL480 component in the farm bill which will be under discussion in 1989-90 derive from these new principles. The key recommendation is that food aid should go to poor countries most in need of food imports to meet nutrition deficiencies. Such need should become the principal priority of food aid. Food aid should attack the very conditions and causes that justify its existence. Its aims, therefore, would be: (1) the need to improve agricultural production through practices that do not threaten the environment and which take advantage of the latest technology; (2) the support of regional, national and international markets to smooth out instabilities in domestic food supply and reduce the need for grant food imports in the longer term, and (3) the design of flexible, environmentally targeted interventions, perhaps using cash-for-work from food sales proceeds, in which donors such as the United States and Japan would provide co-financing.

With such an emphasis, I believe, the prospect for co-financing with other donors who could provide both cash and food inputs to longer term efforts seems promising. The World Bank has begun efforts to initiate a framework for such cooperation. Significant aid donors that are not food exporters, such as Germany and Japan, have exhibited a willingness to associate their financing when such efforts are not competitive with their own domestic industries.

The broad proposal outlined above is for reform of the international food aid regime. The United States, as its principal founder and major contributor (both to its substance and its rules) is well placed to assert leadership in attacking food insecurity. New knowledge about world food needs and effective uses of food aid provide a basis for regime reform. Leadership in this realm, taking advantage of the developed world's rich agriculture productivity and surplus capability, along with a concern for efficient world agricultural production, calls for powerful states among donors of food aid to direct their use of food aid more centrally toward the goals of protecting people and protecting our environment.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

February 3, 1989

TO : Honorable Byron Dorgan
Attention: Tony Gambino

FROM : Charles E. Hanrahan
Senior Specialist

SUBJECT : Agriculture and Food Aid in Central America

This memo responds to your request for information on agriculture and food aid and on the impact of food aid on agricultural development in Costa Rica, El Salvador, Guatemala, and Honduras.

Agriculture is the dominant economic sector in the four countries. These countries have dualistlic agricultural economies in which crops such as coffee, sugar or bananas and livestock products are intensively produced for export, while food crops--rice, beans, corn and livestock for domestic consumption--are produced on small, largely subsistence farms. The countries are predominantly rural with 49 to 62 percent of the population still residing in the countryside (Table 1). Urban populations are, however, growing at 2 to 3 times the rate of rural populations, according to the IDB.

The U.S. Department of Agriculture (USDA) and the Inter-American Development Bank (IDB) report stagnant or declining food and agricultural production for the region during the 1980s. Growth in food production has not kept pace with population growth according to USDA. No single factor explains the relatively poor performance of the agricultural sector. Among factors cited by the Agency for International Development (AID) and USDA are external forces (especially fluctuating world prices for commodities), droughts, political and social unrest, internal macroeconomic and agricultural policies, patterns of asset ownership and distribution, limited access to productivity-increasing technology and finance, and weak or non-existent public and private sector institutions serving peasant agriculture.

Agriculture contributes 20 to 27 percent of Gross Domestic Product (GDP) in the four countries (Table 1). Agricultural exports are 62 to 82 percent of total merchandise exports. Traditional exports are concentrated in one or two commodities--coffee and bananas in Costa Rica; coffee and sugar in El Salvador and Guatemala; and bananas and coffee in Honduras. These Central American countries have begun to diversify into nontraditional agricultural exports, such as mangoes, pineapples, spices, ornamental plants

TABLE 1. Four Central American Countries: Population, Gross Domestic Product, and Trade

	Population		Gross Domestic Product		Trade
Country	1987 (mil)	Percent rural	Per capita 1987 (US $)	Percent agric.	Ag. exports as % of total 1986
Costa Rica	2.8	50	1,480	21	70
El Salvador	4.9	52	820	20	58
Guatemala	8.4	62	930	25	80
Honduras	4.7	49	740	27	66

Sources: Inter-American Development Bank, Economic and Social Progress in Latin America: 1988 Report; FAO Trade Yearbook, 1986.

and cut flowers, melons, garlic, snow peas, and other winter vegetables. However, such products compose less that 10 percent of their agricultural exports.

Food imports have increased substantially in the 1980s. For example, average annual imports of wheat and wheat flour in 1984-86 were 150 percent greater than annual averages in 1971-79 (IDB). Food aid imports have also increased substantially in the four countries in the 1980s. Tables 2 and 3 show Title I/III (concessional sales) and Title II (donations) food aid shipments to the four countries from 1979 to 1988. Food aid shipments peaked in 1985 at $106.4 million for Title I/III and $22.2 million for Title II.

Title I/III food aid is mainly wheat and wheat flour, although some vegetable oil and feedgrains have been provided. Title II programs have provided mainly processed foods and more recently large quantities of nonfat dry milk.

Food aid is a substantial percentage of U.S. agricultural exports to the four countries, according to USDA data. In 1985, food aid as a percent of U.S. agricultural exports was 43 percent for Costa Rica; 52 percent for El Salvador; 76 percent for Guatemala; and 30 percent for Honduras.

Why have food aid imports by these Central American countries grown in the 1980s? AID and USDA point to political, economic, and humanitarian factors to explain the large shipments.

In recent Congressional Presentations (CP), AID stresses political, strategic and U.S. economic interests, developmental concerns, and humanitarian concerns for improving nutrition among the poor as the rationale for the provision of substantial economic assistance, including food aid, to Central American countries. The 1988 CP, for example, cites the need for sustained U.S. economic support to further the process of democratization in Central American countries (CP 1988, p. 401). The 1988 CP states that "...our primary strategic objective in the region is to support an environment of stable, friendly, democratic governments, providing political and economic freedom of opportunity for citizens regardless of current status, in which our major security interests as well as theirs can be protected." (p. 402) AID also justifies economic assistance including food aid to Central American countries in terms of its long-term contribution to market development for U.S. agricultural and other exports (CP 1988, p. 401).

More particularly, AID links the provision of food aid (Title I) to the need of Central American countries for balance of payments (bop) support. USDA (World Food Needs and Availabilities, Spring 1989, forthcoming) cites high commodity prices for wheat and wheat flour and other foods and foreign exchange shortages reflecting inability to pay for commercial imports as major reasons for large concessional food aid programs in Central American countries.

TABLE 2. P.L. 480 Title I/III in Costa Rica, El Salvador, Guatemala. and Honduras FY 1979-1988 (Million Dollars)

	Costa Rica	El Salvador	Guatemala	Honduras
1979	--	--	--	2.0
1980	--	3.0	--	2.0
1981	--	17.2	--	5.8
1982	18.0	27.2	--	7.0
1983	27.5	39.0	--	10.0
1984	22.5	49.0	7.0	15.0
1985	21.4	49.0	21.0	15.0
1986	16.2	44.0	15.4	13.9
1987	15.2	30.1	18.9	12.0
1988	--	41.5	18.0	12.0

Sources: U.S. Department of Agriculture. P.L. 480 Annual Report, various years. Agency for International Development. Congressional Presentation, various years.

TABLE 3. P.L. 480 Title II in Costa Rica, El Salvador, Guatemala, and Honduras, FY 1979-1988. (Million Dollars)

	Costa Rica	El Salvador	Guatemala	Honduras
1979	0.01	2.5	5.3	4.3
1980	0.01	3.3	3.7	2.8
1981	0.4	6.1	6.8	5.0
1982	1.0	7.7	5.6	3.0
1983	0.2	7.7	5.3	5.5
1984	0.1	7.0	6.5	6.2
1985	0.2	10.6	7.7	3.7
1986	0.3	10.4	5.8	4.6
1987	0.1	6.4	8.5	5.4
1988	0.1	12.9	5.4	8.3

Sources: See Table 2.

AID notes that "local currency generations from the sale of P.L. 480-financed foodstuffs are integrated with ...overall development assistance activities and are used as tools in our policy dialogue on macroeconomic and sector policies....(and that (Title II) commodities address nutritional needs by targeting the poorest and most vulnerable segments of the population." (CP 1988, pp. 410-411)

The provision of large-scale food aid to Central American countries has its critics. One recent review of U.S. food aid in Central America concludes:

> "At first glance, generous servings of food aid and attempts to reform farm policies in Central America seem positive and humanitarian. (Yet U.S. efforts there) are doing more harm than good. Instead of addressing the roots of rebellion, food aid is feeding the crisis in Central America in the following ways:
>
> - Helps to prop up or stabilize governments while enabling them to avoid needed structural reforms.
> - Undermines their capability ...to guarantee sufficient food for all their residents.
> - Creates new and dangerous patterns of food consumption.
> - Supports counterrevolutionary campaigns of the military.
> - Pressures government to institute new agricultural development policies that deemphasize basic grains and promote agroexport production."[1]

From this evaluation, the conclusion is drawn that "food aid should not be expected to make a major contribution to alleviating the structural food and development problems of poorer countries. It will take food aid which is smaller in amounts, more focused on specific structural problems and better supported with associated inputs to command broader support of hunger groups."[2]

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[1] From Feeding the Crisis. Resource Center Bulletin No. 14 (Fall 1988). The Resource Center, Albuquerque, NM. p. 1 cited in Larry Minear, Less Food Aid is Better, Paper presented to the Conference on Food Aid, Hubert Humphrey Institute of Public Affairs, November 28-29, 1988, Minneapolis, Minn. p. 5.

[2] Larry Minear, Less Food Aid is Better, p. 5.

There have been economic evaluations of the effect of Title I/III food aid on agricultural development in El Salvador, Guatemala, and Honduras. These studies address directly the question: Do food imports, including P.L. 480 imports, depress local production? The results of the evaluation for El Salvador[3] are typical of the three studies and can be summarized as follows:

- Agricultural imports have been increasing since the late 1970s. Most rapidly increasing products have been wheat, yellow corn (not for human consumption), vegetable oil, animal fats, live animals and meat products. Except for wheat, these items largely are livestock products or feed inputs into the livestock sector.

- The growth of imports has not been sufficient to fully offset the diminishing levels of production, and therefore food supplies per capita dropped approximately 20 percent between 1979 and 1986.

- Agricultural imports have responded to expected economic influences: domestic purchasing power (rising in urban areas); domestic agricultural production (declining); and the exchange rate (overvalued).

- Exchange rate policy is the major determinant of agricultural imports. In particular, the overvaluation of the exchange rate in recent years has encouraged more reliance on imported agricultural goods including food.

- It is not the amount of agricultural imports in recent years that is depressing domestic farm production, but rather their prices. The exchange rate has been the principal factor in making those prices low relative to domestic farm prices. Imports are not depressing domestic production but rather both of them are jointly determined by exchange rate policy. The effect of the overvalued exchange rate is strong enough to counter the effect of other domestic policies (subsidies or support services) designed to influence agricultural prices.

- The Salvadoran Government is pursuing macroeconomic policies that are not particularly favorable to expansion of agricultural output and are conducive to relying on food imports. A change in macroeconomic policy, e.g., currency devaluation, would be key to increasing agricultural production and incomes, increasing agricultural exports and foreign exchange earnings, and decreasing the need for agricultural imports.

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[3] Robert R. Nathan Associates. Food Imports, Agricultural Policies and Agricultural Development in El Salvador, 1960-1987, 1988; see also studies of the same title for Guatemala and Honduras by Robert Nathan Associates, 1988.

Central American Governments have at times evidenced some reluctance to devalue. Economic reasons have been that devaluation may contribute to inflation and may make imports needed for promoting development more expensive. Some observers argue that political opposition to devaluation especially by groups that benefit from an overvalued currency such as urban residents dependent on imported food or important individuals who hold import licenses and import monopolies is the most critical factor preventing devaluation. Nevertheless, evaluations of food aid such as the one cited above lend support to the notion that the provision of food aid has permitted governments to avoid exchange rate devaluation that might stimulate domestic food and agricultural production.

Evaluations of Title II donation programs for the four countries are all in terms of their impacts on program beneficiaries and management considerations. They do not address the effects of food aid on development of the agricultural sector.

I am enclosing a selection of materials concerning economic conditions, agriculture and food aid in the four countries. If you have additional questions, please call me at 707-7235.

Order Code IB89097

CRS Issue Brief

Foreign Food Aid: Reauthorization Issues

Updated July 6, 1989

by
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Foreign Food Aid: Reauthorization Issues

SUMMARY

The United States provides U.S. agricultural commodities as food aid to developing countries in several ways. The Agricultural Trade Development and Assistance Act of 1954 (P.L. 83-480, as amended), referred to simply as P.L. 480, provides for commodity sales (financed either by long-term, low-interest dollar credits or by local currencies) and for commodity donations. Section 416 of the Agricultural Act of 1949, as amended, provides for the donation of commodities acquired by the Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture (USDA) in the course of its price support operations.

U.S. food aid programs are mandated to serve multiple objectives: export market development, economic development, humanitarian relief, and support of foreign policy goals. The programs are administered jointly by the Agency for International Development (AID) and USDA. The Office of Management and Budget (OMB) and the Departments of Treasury and State participate in the food-aid decisionmaking process. Because of food aid's multiple objectives and complex management structure, the potential exists for policy disagreement and administrative conflicts. On the other hand, there is also the potential for coordination of food aid program objectives, especially between the economic development and export market expansion objectives.

Congress generally reauthorizes and amends P.L. 480 food aid programs in multiyear farm bills that are taken up every 4 or 5 years. Authorizing legislation contained in the Food Security Act of 1985 will expire on Dec. 31, 1990. Foreign assistance bills have also been vehicles for making changes in food aid programs.

Policy options for modifying food aid programs currently being discussed include orienting the programs more toward humanitarian and economic development objectives, focusing the sales portion of the P.L. 480 on U.S. agricultural export market development, and simplifying the management structure of the program. Not all proposed changes in food aid programs will require legislation. Some changes could be made by executive order, others by program administrators in AID, USDA, or other agencies on the Food Aid Subcommittee of the interagency Development Coordination Committee (DCC). Congress will be sorting out the proposals, assessing their relative merits, and deciding which ones require legislation as debate over reauthorization continues.

ISSUE DEFINITION

U.S. foreign food aid programs serve humanitarian, development, market development and foreign policy objectives. While these multiple objectives can often be complementary, they can also be sources of tensions and conflict, a situation which makes P.L. 480 programs difficult to administer. Legislative authority for the programs expires with the Food Security Act (P.L. 99-198) in 1990. Debate over the future of P.L. 480 centers on whether and how to make P.L. 480 more focused on humanitarian and economic development objectives or more oriented toward U.S. agricultural export market development. Both options have implications for how the program is managed.

BACKGROUND AND ANALYSIS

Food Aid Programs

P.L. 480 authorizes most Government-financed foreign food assistance programs. From 1954 through the mid-1960s, P.L. 480 stressed the disposal of surplus farm commodities and the development of commercial export markets. The Food for Peace Act of 1966 (P.L. 89-808) made major changes in P.L. 480 by placing emphasis on food aid to promote economic development in receiving developing countries. The Food for Peace Act deleted P.L. 480's objective of surplus disposal and required that receiving countries undertake "self-help" measures to increase agricultural production, improve agricultural marketing, and reduce rates of population growth.

Dollar Credit and Local Currency Sales (Title I)

Most food aid is provided under Title I of P.L. 480, a sales program. It authorizes sales of U.S. agricultural commodities -- mainly wheat, wheat flour, rice, feedgrains, and vegetable oil -- through long-term concessional financing by the Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture (USDA). Title I also authorizes sales for local currencies that the United States can then loan to the receiving country to support the development of private enterprise.

Title I dollar credit sales may offer terms up to 40 years (including a 10-year grace period with a 2% per annum service charge) at interest rates between 2% and 4%. Because of the soft terms of the loan, food aid under Title I enables receiving countries to save foreign exchange that can be then used for other purposes. Title I commodities are sold on local markets in the receiving countries; the local currencies thus generated can be used by governments for general revenue purposes or to finance local costs of development projects.

Title I sales, by law, may not displace U.S. commercial exports to a particular country or disrupt its normal patterns of agricultural trade. Receiving countries must have a demonstrated capacity to store and handle the food commodities they are to receive. A determination must be made that food aid will not create disincentives to local food production in the receiving country. Each Title I agreement details self-help provisions that countries must undertake to increase per capita food production and improve the means for storage and distribution of agricultural commodities.

Food Donations (Title II)

Title II of P.L. 480 authorizes commodity donations for disaster relief, economic development, and feeding programs overseas. In addition to the kinds of commodities provided under Title I, Title II donations include more processed or fortified foods such as nonfat dry milk, corn-soya-milk, or soya-sorghum-grits. Title II requires that a minimum volume of commodities be provided. In 1989, the minimum is 1.9 million metric tons, of which 1.425 million metric tons (referred to as the subminimum) must be distributed by private voluntary organizations (PVOs) and cooperatives. Donated foods are distributed also through national governments and international agencies, especially the United Nations World Food Program (WFP). Title II commodities may be "monetized," that is sold, by the recipient PVOs and cooperatives to defray some of the costs associated with food distribution or development projects.

Food for Development (Title III)

Title III of P.L. 480 establishes a multiyear food aid program, financed with Title I funds, termed Food for Development. Under this title, countries can reduce or eliminate their debt to the United States for the commodities received under Title I by using the proceeds from the local sale of the commodities for approved development projects. The law requires that Title III programs be equal to at least 10% of the annual value of all the food aid provided under Title I.

Section 416

In addition to P.L. 480, the United States also donates surplus farm commodities overseas under Section 416 of the Agricultural Act of 1949. When enacted, Section 416 provided for both domestic and foreign donations of surplus U.S. commodities. Over time the foreign donations component was supplanted by P.L. 480 Title II. Congress removed the foreign donations authority of Section 416 in 1966. In 1985, to help reduce the buildup of large CCC-owned surpluses acquired earlier under farm price support programs, Congress again authorized foreign donations of dairy products and later wheat and other commodities under Section 416. The 1985 farm bill established a Food for Progress program under Section 416 in which CCC-owned commodities are donated to countries willing to provide greater incentives to local food producers, reform monopolistic grain marketing systems, and encourage the private sector to become more involved in marketing agricultural products and inputs.

Program Management

Most decisions concerning foreign food aid programs are made by the Food Aid Subcommittee of the Development Coordination Committee (DCC). The DCC was established by Executive Order in 1977 to ensure coordination of development policies and programs within the U.S. Government. The DCC is chaired by the Administrator of AID; the Food Aid Subcommittee by USDA. In addition to USDA and AID, the

Office of Management and Budget (OMB), and the Departments of State and Treasury are members of the Food Aid Subcommittee. Most decisions of the Subcommittee are made at staff level. Staff representing agency members of the Food Aid Subcommittee meet regularly to review food aid requests, recommend allocations, or reject proposals. In principle USDA is primarily responsible for administering Title I and Section 416 while AID is primarily responsible for administering Title II. In practice there is considerable overlap in administering the programs.

Program Levels

For P.L. 480 food assistance, the Administration has proposed a program level of $1,482 million for FY1990. This level of funding is virtually unchanged from FY1989, although the Title I/III program will decline by approximately $35 million and the Title II program will increase by a similar amount. The program level proposed for P.L. 480 for 1990 is expected to provide total commodity shipments of 5.8 million metric tons. This would be an increase of 200,000 metric tons from the level estimated for 1989. Actual tonnages shipped will depend on commodity prices and shipping costs during 1990. Program levels for Section 416 depend on the availability of CCC stocks of desired commodities.

Policy Issues

Food aid policy issues relate to the multiple objectives of food aid, the conflicts between objectives, and management of the programs.

Food Aid and Economic Development

Food aid is a large component of U.S. foreign assistance and may become relatively more important if outlays for development assistance decline (see **Table 1**). In FY1988, food aid accounted for approximately 20% of total development assistance (multilateral and bilateral development assistance plus Economic Support Funds, but excluding military aid and operating expenditures of the State Department).

Proponents of food aid for economic development point out that food aid provides valuable resources -- the commodities themselves, the local currencies generated through the sale of the commodities, and foreign exchange saved by the substitution of food aid imports for commercial imports -- that receiving countries can use for development purposes. Commodities can be used directly in targeted feeding programs or in food-for-work projects, where participants receive at least a portion of their wages in kind. The financial resources generated by food aid can be invested in agricultural development projects: local currencies can be used to defray the local costs of agricultural development projects, while saved foreign exchange can be used to purchase imports needed for these same projects.

Critics of food aid for economic development stress the potentially negative effects of such aid, particularly on agricultural development. Not only can food aid be a disincentive to local production by depressing food prices, but it also can encourage governments to neglect policies that would contribute to agricultural development and increased food production. Food aid may also contribute to a dependency on foods that cannot be produced cheaply or at all in the receiving country. Governments in receiving countries may also become dependent on the fiscal resources they receive from the local sale of commodities or on the foreign exchange they save. Research on these issues shows mixed results; however, one widely accepted conclusion is that the effects of food aid on food production and policy depend on the particular circumstances in the receiving country.

Food Aid and Export Market Development

The share of food aid in total U.S. agricultural exports varies inversely with commercial agricultural export sales (see **Table 2**). In the 1950s and 1960s, P.L. 480 and other Government-financed exports accounted for about 25% of all U.S. agricultural exports. Wheat and rice were the commodities most dependent on government assistance for export. The boom in commercial agricultural exports in the 1970s substantially reduced the share of agricultural exports under P.L. 480. The proportion of total U.S. agricultural exports accounted for by P.L. 480 dropped from 14% in 1972 to 3% in 1982. As commercial exports declined during the early 1980s, food aid's share of agricultural exports rose to 6% in 1985. Large shipments to Sub-Saharan Africa in 1985 helped to expand food aid exports. However, in 1987, as agricultural exports started to recover, food aid dropped to 4%.

Supporters of P.L. 480 for market development contend that U.S. food aid has been an important tool in building commercial markets for U.S. agricultural exports. Food aid, they say, represents commodities that would not have been exported in the absence of concessional finance, and are therefore additional to commercial exports. Food aid helps develop consumer preferences for U.S. products. Title I agreements establish trade relationships which give U.S. exporters an advantage in future commercial sales. Developmental uses of food aid also contribute to export market development because food aid resources can be used to build market infrastructure and promote income growth in receiving countries.

Critics of food aid for export market development have argued that food provided as aid often displaces commercial sales of food and in any case does not increase sales of food over and above commercial imports in a country. The limited number of studies of this issue show mixed results. In some countries food aid has been shown to at least partially displace commercial imports; only in India in the 1960s does food aid seem to have definitely added to the overall demand for food without displacing commercial sales.

Aid and Trade Missions. The notion that the economic development and market development components of food aid can work together is behind the recent enactment of the Aid and Trade Missions Act of 1987 (included in P.L. 100-277). The aim of this legislation is to provide for teams of agricultural trade and development experts from both the private and public sectors to design country-specific packages of U.S. trade and food assistance programs. The objective is to help designated countries develop economically and to become larger markets for U.S. agricultural products.

Aid and trade missions have received wide support from proponents of food aid in the PVOs, cooperatives, and commodity and farm organizations. Critics see the same potential drawbacks to this new program as with other P.L. 480 programs -- discouraging local agricultural development and food production, creating a dependency on expensive and difficult to produce food products, avoidance of policy decisions that would stimulate domestic agricultural growth and production, and others.

Food Aid and Humanitarian Feeding Programs

About 30% of the total volume of agricultural commodities shipped under P.L. 480 is for emergency or humanitarian feeding programs. Title II is the main program vehicle for commodities used to combat malnutrition and hunger, but Section 416 donations can also be used for these purposes. Food aid for emergency famine relief is currently being provided to victims of famine, including refugees, in Ethiopia, Malawi, Mozambique, and Sudan in Africa. Voluntary agencies and the World Food Program are involved in Title II feeding programs targeted to nutritionally at-risk populations in approximately 70, mostly low-income, countries around the world.

Proponents of food aid for economic development support food aid for emergencies and for feeding programs because they consider it an investment in the health of a developing country's population. Those who are in favor of using food aid for export market development also see humanitarian food aid programs as maintaining basic consumption levels and creating tastes and preferences for foods that can be imported from the United States when incomes grow.

Food aid for humanitarian uses is not without its critics, however. While no one criticizes the emergency provision of food to at-risk populations when the alternative is starvation or severe malnutrition, some argue that it would be preferable to purchase food for this purpose from surplus producing, developing countries. (This has been done in a few cases.) Another criticism of the U.S. response to emergencies is that often more food than is required is shipped so that when growing conditions improve the existence of large stocks creates a disincentive for local food producers. This criticism reflects not only difficulties in determining need, especially in emergencies, but also problems in planning and delivering the food in emergencies.

A current issue of concern to Congress is the effectiveness of U.S. efforts to meet food needs in Ethiopia, Sudan, and other famine-stricken African countries. The challenge is to overcome obstacles posed by internal and external conflicts and by government policies to delivering the food to people in desperate need.

Food Aid and U.S. Foreign Policy

The relative emphasis placed on the foreign policy objective of P.L. 480 has been a continuing source of controversy. The active participation of the Department of State in the deliberations of the Food Aid Subcommittee of the DCC means that each food aid program will be assessed from a U.S. foreign policy perspective.

The issue came to a head during the war in Indochina when most Title I commodities were being shipped to Vietnam. These large shipments stimulated Congress to amend P.L. 480 to require that 75% of Title I commodities be allocated to countries that meet the low income criterion (annual per capita income of $835 or less in 1988) established by the International Development Association (IDA) of the World Bank.

Recently, controversy about food aid for U.S. foreign policy interests has been focused on the Title I program in Egypt, which currently receives the largest amount of U.S. food aid. In FY1988, Egypt was allocated 1.2 million metric tons (grain equivalent) of wheat, wheat flour, and vegetable oil with a value of $179 million. Although Egypt does meet the low income criterion established in the legislation, many argue that Egypt is receiving more food than it would receive were it not for foreign policy considerations. In addition, critics say that U.S. food aid to Egypt is a classic example of how food aid causes disincentives to agricultural production in a receiving country because it permits the Egyptian government to follow costly policies that discriminate against agricultural producers -- for example, food price subsidies to urban consumers. Visitors to Egypt have also reported that bread made from P.L. 480 wheat or wheat flour is so available that it is sometimes used as livestock feed.

Proponents of the large Egyptian program justify it on the basis of the strategic role of Egypt in U.S. Middle-East diplomacy and the need to maintain Egypt as an ally. In addition, supporters of food aid for Egypt point to the important role it has played in bringing Egyptian nutritional standards up to internationally recommended levels.

Other FY1988 Title I programs where foreign policy considerations loom large are in El Salvador ($42 million), Honduras ($12 million), Morocco ($36 million), and Pakistan ($80 million). Large programs based primarily on foreign policy considerations have led some food aid critics to call for smaller food aid programs that would be targeted exclusively to needy people in poor countries.

Policy Options

Most current discussion of modifying the food aid program emphasizes (1) streamlining program objectives by separating humanitarian and development food aid from food programs to develop markets or meet foreign policy objectives, and (2) simplifying program management, usually by clarifying and reassigning agency responsibility for components of the program and restricting the role of the food aid subcommittee of the DCC. These options are not necessarily mutually exclusive.

Strengthening Food Aid for Development and Humanitarian Purposes

Proponents of strengthening food aid for development and humanitarian purposes would make food aid predominantly, even exclusively, a development and humanitarian feeding program. The objectives would be refocused more clearly on ending hunger and promoting food security (the availability of a nutritious diet for everyone in a receiving country). Emergency food needs would get priority consideration for the allocation of food aid. Reorienting food aid in this way implies that market development and foreign policy considerations would be eliminated or at least deemphasized as objectives. Some proponents of this approach envision a more active role for the United States in the World Food Program and other international organizations in mobilizing food resources for food-deficit developing countries. For example, Japan could be encouraged to purchase its food aid commitment to the WFP from the United States.

Stressing the humanitarian and developmental objectives of food aid implies that food would be allocated to countries on the basis of need and their willingness to pursue policies that promote food security. (Some proponents of making food aid more development oriented would condition receipt of food aid on the receiving country's willingness to undertake environmentally sound development strategies or population control programs.) The commodities made available would depend on the type of program: targeted feeding programs would consist of commodities that provided the most nutrients per dollar of program cost. Alternatively, where the purpose is to generate local currencies, commodities that yield the most local currency per dollar of commodity cost would be provided. To alleviate the debt burden of receiving countries, the food aid would be provided on a partial or full grant basis. Some food aid would be sold for foreign currencies.

Subsidies included in current legislation could be removed in order to reduce program costs and/or expand the volume of commodities provided. Subsidies that might be candidates for removal include cargo preference (the requirement that 75% of food aid be shipped on U.S. flag vessels) and the requirement that 75% of commodities in Title II be bagged, fortified, or processed. The subminimum, which could be considered as a subsidy to PVOs and Cooperatives, would be scrutinized for modification.

Proponents of change argue that such proposals would make food aid more cost-effective, reduce unnecessary outlays, and correspond more closely to needs of food deficit developing countries, the ostensible prime targets of the food aid program. Critics of such proposals argue that emphasizing development to the exclusion of other objectives ignores the potential complementarities between different food aid objectives. They argue further that separating development from the other program objectives would undermine the critical political support food aid receives from a coalition composed of PVOs, cooperatives, religious groups, commodity and farm organizations, the maritime industry, food processors, and others. They also doubt the political feasibility of divorcing foreign policy considerations from any foreign assistance program, whether for food or financial assistance.

Strengthening Food Aid for Export Market Development

A second set of suggestions would focus Title I sales on U.S. export market development in receiving countries. Proponents of this course of action would make Title I exclusively, or at least predominantly, an agricultural export market development program. Title I sales would be made on the basis of graduated terms: as per capita incomes increased, Title I sales would also increase; at some income level receiving countries would become eligible for other export assistance programs. (At present 75% of Title I sales are made to countries that are eligible for soft loans from the World Bank's International Development Association (IDA) and 25% to non-IDA eligible countries.) Local currencies generated from the sale of commodities in receiving countries would be allocated on a priority basis to market development activities and investments. These could include port and road infrastructure, storage, technical assistance in processing foods, manufacturing feedstuffs, etc. The provision of food aid for market development purposes would be coordinated with other export promotion programs such as export credit guarantees, export subsidies, and other export assistance programs. Receipt of P.L. 480 Title I by a country would be conditioned on the country's purchase of a substantial share of its agricultural imports from the United States.

Proponents of this approach argue that food aid can contribute, especially over the long run, to expanding markets for U.S. agricultural exports, essential both to maintaining prosperity in the U.S. agricultural sector and to reducing trade and budget deficits over the long run. Proponents of this approach also view the developing countries as potential growth markets for U.S. agricultural products. In their view food aid for market development contributes also to increased food availability in receiving countries, stimulates their long run agricultural production and economic growth, and thus the long-run demand for U.S. agricultural commodities.

Critics argue that more concessional sales for market development will negatively affect economic development by creating in receiving countries a dependence on commodities that cannot be produced domestically or, if they can be produced, only at great cost. They cite the policy disincentive alluded to above. Separating Title I from the total food aid program is criticized by those who think it would undercut the political support the program now gets, for example, from PVOs and others who view even Title I as primarily a humanitarian program. Care would have to be taken to ensure that an expanded food aid program for market development not conflict with international obligations of the United States concerning surplus disposal.

Program Management Changes

Exercising the above options would require changes in how the food aid programs are administered.

Strengthening the development and humanitarian orientation of food aid implies that AID would be the lead agency for food aid. The DCC might forsake week-to-week management of the program but might still approve the overall size of the emergency reserve and regular food aid allocations at the beginning of a fiscal year, thus putting the food aid allocation process on the same footing as the rest of the foreign aid program. During the fiscal year the DCC could approve only specific emergency reserve allocations, while USDA could intervene only in the event of unforeseen commodity availability problems.

Greater emphasis on Title I for market development also implies program management changes. USDA might have the lead responsibility for Title I; it could determine country allocations at the beginning of the fiscal year, initiate sales, design and implement agricultural market development activities under the program, and coordinate Title I sales with sales under other export programs.

Proponents argue that streamlining program management would provide greater efficiencies and effectiveness by reducing bureaucratic delays and time spent in meetings, among other things. Critics argue that the interagency process, imperfect as it may be, helps to assure that significant budgetary, foreign policy, development assistance, or financial aspects of the food aid program are adequately considered.

Role of Congress

Congress generally reauthorizes and amends P.L. 480 food aid programs in multiyear farm bills that are taken up every 4 or 5 years. Authorizing legislation contained in the Food Security Act of 1985 will expire on Dec. 31, 1990. Foreign assistance bills have also been vehicles for making changes in food aid programs. Not all proposed changes in food aid programs will require legislation. Some changes could be made by executive order, others by program administrators in AID, USDA, or other agencies on the Food Aid Subcommittee of the interagency Development Coordination Committee (DCC). Congress will be sorting out the proposals, assessing their relative merits, and deciding which ones require legislation as debate over reauthorization continues.

TABLE 1. U.S. Economic Assistance, P.L. 480, and P.L. 480 as a Percent of Economic Assistance
($ million)

Fiscal Year	Economic assistance 1/	P.L. 480	Percent P.L. 480
1970	$3,676	$1,056	29%
1971	3,442	1,023	30
1972	3,940	1,058	31
1973	4,117	954	23
1974	3,900	867	22
1975	$4,908	$1,101	22%
1976	5,809	907	16
1977	5,594	1,102	20
1978	6,509	1,074	16
1979	7,120	1,182	17
1980	$7,573	$1,341	18%
1981	7,305	1,375	19
1982	8,129	1,108	14
1983	8,603	1,203	14
1984	8,850	1,226	14
1985	$9,864	$1,666	16%
1986	8,714	960	11
1987	7,423	1,136	15
1988	6,948	1,478	21

1/ Includes multilateral and bilateral development assistance, Economic Support Funds, and food aid.

Source: *Statistical Abstract of the United States*, various issues; Agency for International Development, *Congressional Presentation*, various issues; *Budget of the United States*, various issues; USDA, *Foreign Agricultural Trade of the United States*, various issues.

TABLE 2. U.S. Agricultural Exports: Total, Commercial and Concessional
($ million)

Fiscal Year 1/	Commercial 2/ Exports	Concessional Exports			Total Exports	Share of Concessional
	Total	P.L. 480	AID 3/	Total		
1960	$3,236	$1,116	$ 167	$1,283	$4,519	28%
1961	3,444	1,316	186	1,502	4,496	30
1962	3,573	1,495	74	1,569	5,142	31
1963	3,608	1,457	13	1,470	5,078	29
1964	4,627	1,418	23	1,441	6,068	24
1965	4,501	1,570	26	1,596	6,097	26
1966	5,148	1,346	43	1,389	6,747	21
1967	5,513	1,271	37	1,308	6,821	19
1968	5,034	1,280	17	1,297	6,331	20
1969	4,701	1,039	11	1,050	5,751	18
1970	$5,890	$1,056	$ 12	$1,068	$6,958	15%
1971	6,876	1,023	56	1,079	7,955	14
1972	7,118	1,058	67	1,124	8,242	14
1973	13,954	954	84	1,030	14,984	7
1974	20,617	867	76	942	21,559	4
1975	20,595	1,101	122	1,222	21,817	6
1976	21,622	907	216	1,120	22,742	5
1977	22,451	1,102	419	1,523	23,974	6
1978	25,739	1,074	477	1,550	27,289	6
1979	30,488	1,182	304	1,491	31,979	5
1980	$38,957	$1,341	$ 183	$1,524	$40,481	4%
1981	42,246	1,375	159	1,534	43,780	4
1982	37,905	1,108	82	1,190	39,095	3
1983	33,443	1,203	130	1,333	34,776	4
1984	36,657	1,226	150	1,376	38,033	4
1985	29,205	1,626	369	1,996	31,201	6
1986	25,096	960	268	1,228	26,324	5
1987	26,723	943	193	1,136	27,859	4

1/ 1960 through 1976 July/June year. 1977 forward October/September year.

2/ In addition to straight commercial sales, includes sales from CCC stocks; loans and guarantees from Export-Import Bank; CCC credit; and barter shipments.

3/ Includes value of CCC commodities exported under the Section 416 program, and AID mutual security loans.

Sources: USDA, *Foreign Agricultural Trade of the United States*, and Office of the General Sales Manager; AID Bureau for Food for Peace and Private Voluntary Assistance.

LEGISLATION

H.R. 2655 (Fascell)

Authorizes foreign assistance programs for FY1990 and FY1991. Amends Section 106 of the Agricultural Trade and Development Assistance Act of 1954 to extend the period of payment of local currencies to 2 years and 120 days; amends Section 108 to permit the use of up to 5% of local currencies to cover U.S. Government program costs for implementing private sector activities; and prohibits the use of local currencies to finance projects that would increase exports of products that are directly competitive with U.S. exports or that would cause substantial injury to U.S. producers. Introduced June 15, 1989; referred to Committee on Foreign Affairs. Passed House June 29, 1989

H.Con.Res. 91 (Bereuter)

Expresses the sense of Congress with regard to supporting increased donations of commodities for international hunger alleviation purposes through purchases of agricultural commodities from the United States and developing countries financed by the government of Japan. Introduced Apr. 13, 1989; referred jointly to Committees on Agriculture, on Foreign Affairs, and on Ways and Means.

H.Con.Res. 145 (Dorgan)

Urges the President to refocus foreign assistance, particularly food assistance to Central America, to reintegrate refugees and displaced people into the economic mainstream of Central American nations, and to improve the health, nutrition, and education levels of children, women, and others most in need. Introduced June 8, 1989; referred to Committee on Foreign Affairs.

S. 1205 (Matsunaga)

Amends the Agricultural Trade Development and Assistance Act of 1954 to permit foreign currency proceeds derived from the sale of commodities to be used to support research and development programs in agriculture and aquaculture, and for other purposes. Introduced June 20, 1989; referred to Committee on Agriculture, Nutrition, and Forestry.

FOR ADDITIONAL READING

U.S. Library of Congress. Congressional Research Service. The effectiveness of food aid: implementation of changes in farm, food aid, and trade legislation. Proceedings of a CRS workshop, by Charles E. Hanrahan. [Washington] June 1, 1988.
CRS Report 88-493 ENR

----- Food for peace, 1954-1986: major changes in legislation, by Susan B. Epstein. [Washington] Apr. 30, 1987.
CRS Report 87-409 ENR

----- Foreign food aid: current policy issues, by Charles E. Hanrahan and Susan B. Epstein. [Washington] Sept. 14, 1987.
CRS Report 87-923 ENR

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

July 7, 1989

TO : Honorable Tony Hall
Chairman, International Task Force
Select Committee on Hunger
U.S. House of Representatives
Attention: Tony Gambino

FROM : Charles E. Hanrahan
Senior Specialist in Agricultural Policy

SUBJECT : Estimates of Per Capita Food Aid Allocations

This memo responds to your request for information on the per capita allocations of U.S. food aid programs. The attached table contains estimates of per capita allocations to low income countries that receive food aid under both Titles I and II of P.L. 480, the Food for Peace Program.

If you have additional questions, please contact me at 707-7235.

Country	FOOD AID------ FY1989 ESTIMATE Title I/III (000 MTGE)	($mil.)	Title II ($000)	Total ($000)	Population (1,000's)	Title I/III Food Aid per cap. (MTGE/cap.)	($/cap.)	Total Food Aid per cap. ($/capita)
Bangladesh	408*	80*	20,538	100,538	109,964	.004*	.73*	.91
Bolivia	110*	17*	8,783	25,783	6,448	.017*	2.64*	3.99
Domin. Rep.	78	20	6,008	26,008	7,137	.010	2.80	3.64
Egypt	1,020	170	0	170,000	53,348	.019	3.19	3.19
El Salvador	**133**	**35**	**4,413**	**39,413**	**5,389**	**.025**	**6.49**	**7.31**
Ghana	5	6	11,944	17,944	14,360	.0003	.42	1.25
Guatemala	109	18	11,691	29,691	8,831	.012	2.04	3.36
Guinea	9	3	202	3,202	6,909	.001	.43	.46
Guyana	26	4	0	4,000	766	.034	5.22	5.22
Honduras	75	12	3,299	15,299	4,972	.015	2.41	3.08
Indonesia	55	15	4,459	19,459	184,016	.0003	.08	.11
Kenya	33	5	1,746	6,746	23,342	.001	.21	.29
Liberia	14	5	9	5,009	2,463	.006	2.03	2.03
Madagascar	0	0	2,620	2,620	11,073	-----	----	.24
Morocco	178	44	0	44,000	24,976	.007	1.76	1.76
Pakistan	124	80	32,635** #	112,635	107,467	.001	.74	1.05**
Philippines	0	0	13,441	13,441	63,199	-----	----	.21
Senegal	16	5	0	5,000	7,281	.002	.69	.69
Sierra Leone	16	4	1,647	5,647	3,963	.004	1.01	1.42
Somalia	3	2	871	2,871	7,990	.0003	.25	.36
Sri Lanka	101	16	0	16,000	16,640	.006	.96	.96
Sudan	278	40	715#	40,715	24,014	.012	1.67	1.70
Uganda	0	0	26#	26	16,447	-----	----	.002
Yemen	28	10	0	10,000	9,150	.003	1.09	1.09
Zaire	192	26	640	26,640	33,294	.003	.78	.80
Zambia	34	10	0	10,000	7,546	.005	1.33	1.33

* = Title III food aid (no * = Title I)
** = includes Afghanistan
# = all emergency aid

TOP 5 FOOD AID RECIPIENTS (PER CAPITA)

	Tit.I/III (MTGE)	Tit.I/III ($$$)	Total ($$$)
1	Guyana	**El Salvador**	**El Salvador**
2	**El Salvdor**	Guyana	Guyana
3	Egypt	Egypt	Bolivia
4	Bolivia	Dominican Rep.	Dominican Rep.
5	Honduras	Bolivia	Guatemala

Table Notes

-- Food Aid estimates for 1989 taken from AID's Congressional Presentation for FY1990
-- Population statistics taken from the Statistical Abstract of the U.S. 1989 edition
-- Table compiled and calculated by M. Hopkins, CRS